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FMC AND MARAD AUTHORIZATIONS, FY 1994

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FMC and Marad Authorizations, FY 19... [NG

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SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON  
MERCHANT MARINE AND FISHERIES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE ADMINISTRATION'S BUDGET FOR THE FEDERAL  
MARITIME COMMISSION AND THE MARITIME ADMINIS-  
TRATION

APRIL 21, 1993

Serial No. 103-12

Printed for the use of the Committee on Merchant Marine and Fisheries



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# FMC AND MARAD AUTHORIZATIONS, FISCAL YEAR 1994

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WEDNESDAY, APRIL 21, 1993

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON MERCHANT MARINE,  
COMMITTEE ON MERCHANT MARINE AND FISHERIES,  
*Washington, DC.*

The subcommittee met, pursuant to call, at 10:04 a.m., in room 1334, Longworth House Office Building, Hon. William O. Lipinski (chairman of the subcommittee) presiding.

Present: Representatives Lipinski, Pickett, Taylor, Andrews, Green, Hastings, Reed, Stupak, Bateman, Cunningham, Kingston, Fowler, King.

Staff Present: Subcommittee on Merchant Marine: Keith Lesnick, Staff Director; Sharon K. Brooks, Counsel; David Honness, Professional Staff; Natalie Hidalgo, Professional Staff; Randy Morris, Subcommittee Clerk; Fred Zeytoonjian, Staff Aide; Hugh N. Johnston, Minority Counsel. Committee on Merchant Marine and Fisheries: Edmund B. Welch, Counsel; Carl W. Bentzel, Counsel; John Cullather, Professional Staff; Sue Waldron, Press Assistant; Cynthia M. Wilkinson, Minority Chief Counsel; Kip Robinson, Minority Counsel; Judy Alvarez, Chief Minority Clerk.

## STATEMENT OF HON. WILLIAM O. LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS, AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. LIPINSKI. We are actually waiting for Mr. Bateman and other members of the subcommittee from the Republican party, and the problem is that they are in a caucus at the present time, and I know how the Democratic caucuses go on and on and on so I am sure that the Republicans have the same problem that we have. And I really don't care to start this hearing this morning without having at least one Republican here, but hopefully I will start with my opening statement, and perhaps one will walk in the door very shortly. If they are not here by the time I finish my opening statement, I will gavel it closed and just say we all agree on everything, and we can leave quickly.

Today, the subcommittee will meet to hear testimony regarding the Administration's budgets for the Federal Maritime Commission and the Maritime Administration. I am among many members of the subcommittee who have concerns over some budget cuts on important programs at the Federal Maritime Commission and at MARAD. We are pleased to have before us witnesses from both

agencies today and also the state maritime academies to help us explore these concerns.

I would like to see these budgets reflect a commitment on the part of the Administration to promote a viable commercial maritime trade industry. There must also be a commitment to ensure our National Defense Reserve Fleet is able to maintain surge shipping and resupply capabilities to support the deployment of the United States Armed Forces during a contingency.

It is my personal conviction that we as a nation are better served by helping each other. We must work to ensure that our industries are promoted. A strong United States merchant marine industry should be a part of our revitalization plans. It would be a tragedy to find our nation economically or strategically stranded without our own commercial maritime fleet.

I will be leaving these proceedings for what I hope will be a very short period of time because I have to testify before the Water Resources Committee of Public Works, and at that time, I will turn over the Chairmanship to the next ranking member on the Democratic side. But as I say, I hope I will only be gone a short span of time.

We will begin with the consideration of the Federal Maritime Commission's budget request. We will then proceed to the Maritime Administration's budget when we will hear from both Acting Administrator Bowman and representatives of the state maritime academies. Ladies and gentlemen, welcome and thank you for your contributions in our effort to explore both the activities and the budget request of your organizations.

At this time, I would like to recognize my colleague, the ranking Republican member of this subcommittee, Mr. Bateman, who is also an advocate of maritime revitalization and shares my interest to ensure both FMC and MARAD are funded at appropriate levels. Mr. Bateman.

Mr. BATEMAN. Thank you very much, Mr. Chairman. In view of the fact that I have just managed to get myself here, I am going to forego delivering my opening statement and simply ask permission that it be made a part of the record.

Mr. LIPINSKI. Without objection, so ordered.

[Statement of Mr. Bateman follows:]

STATEMENT OF HON. HERBERT H. BATEMAN, A U.S. REPRESENTATIVE FROM VIRGINIA,  
AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE

Thank you, Chairman Lipinski.

I, too, want to welcome our witnesses here today. I particularly want to congratulate Commissioner Hathaway on his new designation as Chairman of the Federal Maritime Commission. I also wanted to congratulate Admiral Herberger on his nomination as the new Maritime Administrator.

However, let me state publicly how impressed I have been with the job Dick Bowman has done while holding the Administrator's position on an acting basis. He has been accessible, candid and aggressive and, yes, effective in his defense of this industry. We might not win every cargo preference battle but at least the other agencies will know they have been in a fight. Mr. Bowman, congratulations on a job well done.

On another note, I must express my frustration at the failure of this Administration to include funding for the title XI Loan Guarantee Program. I understand that MarAd had requested funds but that OMB deleted the request.



Finally, I am hopeful that we can today get a little better idea of the time frame for submission of a Maritime Revitalization Package. I particularly want to know where the money will come from and whether the bill will be "comprehensive."

Mr. Chairman, I look forward to this hearing today and I hope the Maritime Administration will address the concerns I have expressed.

Mr. LIPINSKI. Mr. Taylor, do you have an opening statement?

Mr. TAYLOR. No, I do not.

Mr. LIPINSKI. Mr. Andrews.

**STATEMENT OF HON. THOMAS ANDREWS, A U.S.  
REPRESENTATIVE FROM MAINE**

Mr. ANDREWS. Mr. Chairman, thank you. I want to first of all thank you for conducting this hearing and for your leadership in this very important area, and I would also simply like to welcome the new Chair of the Federal Maritime Commission, Bill Hathaway. Bill is from my state, the State of Maine, who he served with great distinction in the United States Congress, and he has provided great leadership to my state on a variety of issues, and it is wonderful to see him in his current position. And I would like to personally welcome him to this subcommittee. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you. Mr. Hastings, do you have a statement.

**STATEMENT OF HON. ALCEE HASTINGS, A U.S. REPRESENTATIVE  
FROM FLORIDA**

Mr. HASTINGS. Thank you very much, Mr. Chairman. Good morning and to the members of the subcommittee as well. It gives me great pleasure to welcome today's witnesses on behalf of the Federal Maritime Commission and the Maritime Administration. The Federal Maritime Commission and the Maritime Administration play key roles in the maritime industry which is of particular importance to all of us and especially to me in the State of Florida.

The commercial shipping trade industry is an integral part of all of the subcommittee and Florida's economy. Additionally, there is a great need for the immediate deployment of reserve forces. Therefore, it is essential that we ensure a budget package that will reflect our support for the commercial and national defense transportation needs of the United States. Mr. Chairman, that is the essence of my remarks.

Mr. LIPINSKI. Thank you, Mr. Hastings. Mr. Reed.

Mr. REED. No, Mr. Chairman.

Mr. LIPINSKI. Thank you.

Mr. BATEMAN. Mr. Chairman?

Mr. LIPINSKI. Mr. Bateman.

**STATEMENT OF HON. HERBERT BATEMAN, A U.S.  
REPRESENTATIVE FROM VIRGINIA**

Mr. BATEMAN. I too want to at least get on the record my congratulations to Commissioner Hathaway on your elevation to the Chairmanship of the Commission. We are pleased to have you and look forward to working with you. I think it would also be remiss if I did not state openly the admiration and respect that I have for Dick Bowman for the job that he has done in holding down the fort at his agency. I think he has been a very significant and reliable

spokesperson and advocate for the American merchant marine, and I think we certainly very appropriately should pause to express our appreciation to him for the services he has rendered.

Mr. LIPINSKI. Thank you, Mr. Bateman. And as everyone has mentioned already, our first witness this morning is Mr. William D. Hathaway, the Chairman of the Federal Maritime Commission, and I also wish to congratulate him on his elevation to that position. We had an opportunity to talk yesterday, and it is always good to discuss the situation of our maritime industry with people but particularly with a man who has had the experience he has had particularly in politics and in government. He is accompanied by two gentlemen whom he will introduce to us this morning. Mr. Hathaway, the floor is yours.

**STATEMENT OF WILLIAM D. HATHAWAY, CHAIRMAN, FEDERAL MARITIME COMMISSION; ACCOMPANIED BY EDWARD P. WALSH, MANAGING DIRECTOR, FEDERAL MARITIME COMMISSION; ROBERT D. BOURGOIN, GENERAL COUNSEL, FEDERAL MARITIME COMMISSION; FRANK J. IVANCIE, COMMISSIONER AND FORMER MAYOR, PORTLAND, OREGON; MING C. HSU, COMMISSIONER AND FORMER SPECIAL TRADE REPRESENTATIVE, STATE OF NEW JERSEY, AND VICE PRESIDENT OF RCA**

#### **STATEMENT OF WILLIAM HATHAWAY**

Mr. HATHAWAY. Thank you very much, Mr. Chairman. It is a pleasure to be here. I can recall the days over 20 years ago when I sat on your side of the dais and questioned and listened to testimony from Admiral Harllee who was then the Chairman of the Federal Maritime Commission. I thank you very much for your complimentary remarks. I am accompanied here today by two of my fellow Commissioners, Frank Ivancie, former Mayor of Portland, Oregon, who has been with the Commission for seven years, and Ming Hsu, who was the Special Trade Representative for the State of New Jersey under Governor Kean and Vice President of RCA. She has been on the Commission for three years.

The people at the desk with me are, on my left, Ed Walsh, our Managing Director, and on the right, another "Maine-iac" from Fort Kent, Maine, Bob Bourgoin, who is our General Counsel.

Mr. Chairman, I would like permission at this time to have my longer statement put in the record, if I may, and I will give a briefer version of that statement so that we can get on with the questions.

Mr. LIPINSKI. Without objection, so ordered.

Mr. HATHAWAY. The budget request which I am asking for today is \$19,450,000 which is an increase of \$1,150,000 over 1993. Over 90 percent of this increase is for fixed costs and the balance is for expenses for promotions, within grade increases and other administrative expenses. Our 1994 budget request includes two costs which were occasioned by our move last August. One is a rent increase of \$84,000, and the other one is a \$379,000 cost just for our moving expenses alone, which we couldn't have included in our 1993 budget because we didn't learn about this move until after that budget was approved.

After several years of planning and development—since before 1989, when the contract was awarded—the Commission this calendar year will fully implement its Automated Tariff Filing and Information System, affectionately known by some people, and unaffectionately by others, as ATFI. Over a million pages of paper tariffs will be converted to an electric format, but it is going to cost us a considerable sum. It is going to cost about \$1.8 million this year, \$410,000 of which we are going to have to borrow from the Treasury against the user fees that supposedly will be collected under the Davis bill which was enacted last year. The final rule with respect to these user fees will be issued in the very near future. Although we have some ATFI user changes coming in at the present time, additional secondary user fees will be coming in after this rule is promulgated.

The Commission has maintained its enforcement efforts. As you know from past testimony which we have given, we have had a compliance agreement in the Atlantic for the past five years. That agreement is going to expire in July, but we are very hopeful to have a renewed agreement. In the Pacific trades, we are working on a compliance agreement which we expect to have completed in the very near future.

We have been extremely active with respect to discriminatory practices in the foreign trade, taking action against Japan, the People's Republic of China, Taiwan, Korea, and Ecuador. At the present time all of those practices are at a point where we can say that we have satisfied the carriers who complained in the first instance. Things are going along quite well.

Last year we also had a very extensive review of our regulations and modified and eliminated many of them so that now we are ready to start off with a clean slate. We don't think that there is any more need, at least certainly no great need or extensive need, for any further regulatory reform.

The budget request we are submitting today we think is reasonable. However, it doesn't allow us to fund our full OMB FTE allocation of 225 people. We are currently down to about 211 FTE's. I think we can get by on it, but I am hopeful that this committee will look favorably upon it and certainly not cut back any further.

Mr. Chairman, that concludes the summary of my statement, and I will be happy to answer questions.

[Statement of Mr. Hathaway may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much, Mr. Hathaway. Congressman Bateman.

Mr. BATEMAN. Thank you very much, Mr. Chairman, and a very warm welcome, Chairman Hathaway. I am thinking this morning of a letter that I wrote and which was joined in by our Chairman and a number of other members of the committee regarding the Kuwaiti Government and the inability of American-flag carriers to participate in the carriage of the various goods being acquired by the Kuwaiti Government for the rebuilding of that country after the Iraqi invasion had been corrected. I have not yet seen a response to our letter to the Kuwaiti Ambassador but understand that one is forthcoming and perhaps today. Do you have any information you can share with us as to what the position of the Kuwaiti Government is currently?

Mr. HATHAWAY. Yes. Congressman Bateman, we do not have any definite assurance that this matter has been taken care of, but we understand through the State Department that it has been settled. If not, we are poised to take action under Section 19 or under the Foreign Practices Act.

Mr. BATEMAN. Well, I appreciate that very much, and anything I hear I will report to you. I hope you will do the same——

Mr. HATHAWAY. We will do the same.

Mr. BATEMAN [continuing]. because we are very, very interested in that matter being properly resolved. I don't know whether this is the time to raise it, but there is some distress that the Administration's budget proposal did not include any funding for Title 11. I assume though that is a question that I need to raise later not with you?

Mr. HATHAWAY. Yes. I think that is with the Maritime Administration.

Mr. BATEMAN. OK. Fine. That is all I have.

Mr. LIPINSKI. Mr. Taylor.

Mr. TAYLOR. Mr. Hathaway, are you with the Maritime Commission or MARAD?

Mr. HATHAWAY. Maritime Commission—Federal Maritime Commission.

Mr. TAYLOR. OK. I want to reserve my questions for MARAD.

Mr. LIPINSKI. All right. Mr. Andrews, do you have any questions you wish to propose?

Mr. ANDREWS. Yes, I do—just one. Mr. Chairman, I guess it is a general question relating to the whole issue of trade and dealing with the discriminatory practices that hurt our own industries, and you have, in your detailed testimony, outlined several actions that have occurred with several nations. This is a general question. Do you see things getting worse in that area, in general? Do you see that the pressure is increasing? And do you think that we should on this subcommittee be considering different approaches perhaps thinking about additional resources to deal with any of these trends?

Mr. HATHAWAY. No. Congressman Andrews, I do not see the situation getting worse. In fact, it probably will get better as a result of the actions that we have taken, particularly in the Pacific. I think we have sent a clear message that we are going to stand tough and that we are going to follow up on carrier complaints and resolve them to our satisfaction. I think the word has gotten around, so that on the horizon things look much better, and I don't think that we need any changes in the law. I think Section 19, with which you are familiar, and the Foreign Shipping Practices Act are good tools and all the legal tools that we need at the present time. We can always use more money, if that is what your question leads to. We are operating on a very austere budget, and we could always use more investigators and other personnel that could help us out in this regard.

Mr. ANDREWS. Thank you.

Mr. HATHAWAY. You are welcome.

Mr. LIPINSKI. Does that conclude your remarks? Mr. Hastings, do you have any questions?

Mr. HASTINGS. No questions.

Mr. LIPINSKI. Mr. Reed?

Mr. REED. No questions.

Mr. LIPINSKI. Mr. King?

Mr. KING. I have no questions.

Mr. LIPINSKI. OK. Mr. Cunningham?

Mr. CUNNINGHAM. No, Mr. Chairman. I will save it for special orders.

Mr. LIPINSKI. Mr. Green?

Mr. GREEN. No, thank you, Mr. Chairman.

Mr. LIPINSKI. All right. Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman. Mr. Hathaway, I am curious. In your briefing on here, it says that your organization is responsible for passenger vessel certificates of financial responsibility, in particular, with the cruise ships, and I was wondering if that is for every vessel that operates out of our ports or for only American-flag vessels that operate out of our ports?

Mr. HATHAWAY. For every vessel—all vessels.

Mr. TAYLOR. I have noticed in the minutes—it was kind of brief—you mentioned that one of the Commission's actions was to lower the standards as far as showing their ability to pay the financial responsibility—again, I am kind of reading three or four documents at once, but it was on your docket of last year and something that your Commission approved. Would you explain that to the committee please?

Mr. HATHAWAY. Yes. I would be glad to. Under Section 3[a] of the Act concerning Passenger Vessel Financial Responsibility, we are responsible for making sure that the passenger vessel companies have enough security to assure us that if for some reason they don't sail, that people will get their money back. 3[a] says that we can require whatever information, bond or other security that we find is reasonable.

But section 3[b] says that if a bond is required—and in line with that, we have increased the maximum amount from \$10 million to \$15 million—the bond has to be in an amount equal to the estimated total revenue for the particular transportation. That could run up to about \$100 million. We don't think that the Congress intended that, because it gives us in section 3[a] discretion to determine reasonable security. If we felt that they were secure just by looking at their balance sheet, I suppose we could say, "Well, OK. You can go ahead."

It has been our custom to accept a bond, but to require coverage of that amount—say, of \$100 million—I think would be far beyond what the Congress actually intended. And so last year all of us agreed—all the Commissioners and they are here today—that we could strike the last few words from section 3(b)—"and such bond or other security shall be in an amount paid equal to the estimated total revenue for the particular transportation." I think that last year that was agreed to by your committee, but the authorization bill did not pass. We would hope that it would be included in this year's authorization bill.

Mr. TAYLOR. OK. If you would please submit to me the minutes of that meeting and whatever justification the Commission had for that decision, I would certainly like to see it.

Mr. HATHAWAY. I will certainly do that, Congressman.

Mr. TAYLOR. Thank you, sir. Thank you, Mr. Chairman.

Mr. LIPINSKI. Mr. Hathaway, if you would, I think it would be helpful to submit it to the committee at the same time you send a copy to Mr. Taylor.

Mr. HATHAWAY. I shall.

Mr. LIPINSKI. And, Mr. Kingston, do you wish to inquire this morning? Any other members have questions at this time of this panel? Mr. Chairman, how much was collected by the Commission in fines and penalties in Fiscal Year 1992, and what part of these collections was actually returned to the Treasury?

Mr. HATHAWAY. Well, all of the collections are returned to the Treasury at all times. We collected about \$721,000 last year. And I hesitate to add that the year before, we collected about \$22 million, and the year before that, we collected \$25 million resulting from settlements in both the Atlantic and the Pacific trades. One of the reasons that the collections were off last year is because we had made these settlements in the two previous years. This year so far we have collected about \$2 million.

Because of budgetary constraints, we have not been able to hire investigators to fill existing vacancies. They are needed to pursue some of the violations. But keep in mind that we have collected a lot of money from the two biggest trades. Now, we are going to be pursuing malpractices in other trades. I would anticipate that if we can get more investigators (and I have already authorized our Personnel Office to post an announcement to hire more investigators), the collections in the future will probably be significantly higher than they were last year.

Mr. LIPINSKI. Tell us, if you will, what the Commission's budget was that was submitted to the Office of Management and Budget and how that submission was changed and the differences in what we have before us today?

Mr. HATHAWAY. The budget that we submitted was some \$2 million higher than what OMB finally allowed us. Most of this was for additional personnel to bring us up to the strength that the OMB said that we could have; namely, 225 full-time equivalents. As I mentioned earlier, we are now operating at a level of about 211 FTE's. The OMB cut us back, and we appealed that decision. At the appeal proceeding, which the previous Chairman attended, the General Services Administration recalculated our rent. Originally, they had it at about a \$480,000 increase, and it should have been only \$84,000. The recalculation is based on changes in both the square footage and the rate per square foot.

That saves us a considerable amount of money from our original budget request, but we are still, as I mentioned, going to have to borrow about \$410,000. This may prove to be somewhat difficult to repay because that money is going to be borrowed against the user fees that come in under the Davis law. If that amount of money does not come in, and it could very well not come, then we will be stuck. We will have to eat it, or as was suggested at the Appropriations hearing, through the laughter of everybody there, perhaps we could get an emergency supplemental.

Mr. LIPINSKI. All right. Last year, the Commission permitted the highly controversial transatlantic agreement to go into effect, and recently regulators from the European Community have filed ob-

jections against the implementation of the agreement. Have the FMC and the EC regulators had any discussions on the transatlantic agreement?

Mr. HATHAWAY. Yes. We have had discussions, but the formal objections we received just yesterday. They are being analyzed by our economists as well as our General Counsel to see what action we are going to take. The fact that the EC has registered these objections doesn't mean that that is the end of the case. The TAA will have a chance to respond. They will have three weeks to respond. Then there will be a hearing on this matter, so we will have plenty of time to get our input into the situation.

Mr. LIPINSKI. The final question that I have has to do with the Davis law. As a result of the Davis law, your agency was required to impose a fee on the users of the Automated Tariff Filing and Information System. Former Chairman Cook was outspoken against this requirement. He said it would drive users away from ATFI—that is the acronym for the Automated Tariff Filing Information System—in that it would fail to raise the revenues projected by the Congressional Budget Office. What is your opinion of this ATFI access fee, and how will it affect the implementation of the ATFI system?

Mr. HATHAWAY. Well, I feel that it will not raise the revenues that were anticipated by CBO and probably the OMB as well. As you recall, there were no hearings held on this bill last year. We would have been willing to testify, as we indicated in the letters to various members of Congress, advising that we do not believe that the collections would be anywhere near as great as what was anticipated. I think that whoever was figuring this for the Administration and came up with a figure of about \$800 million assumed that every shipper would use this service every time he shipped something. If you multiply the shippers by the number of shipments they make, then you would come up with a fairly high figure.

But we know from experience with paper tariffs that they are not assessed anywhere near that much. Most shippers deal with the same carrier all the time, and they don't have to bother to look up the tariff. They are doing business with the carrier on a daily or weekly or monthly basis and have no need to check it out. So the receipts from that 46 cents a minute user fee we don't think are going to be very great at all.

Will it drive users away? It could drive users away. There is already talk that the tariff filing services are going to set up a mirror image of our ATFI system, and the users will use that rather than our service, and they won't have to pay the 46 cents per minute user fee. That could happen, and we would collect even less than what we are now estimating based on the number of users we think will employ the system in the next few years.

It won't impede our schedule on the implementation as far as the FMC is concerned, but it could delay the filings. The filing services have not yet received our final rule as to how they should account for the fees that they are going to receive as a result of servicing these secondary users. The filing services are going to get the tapes from us for which they will pay. Then they will service secondary

users who will get their information from them, and pay them the 46 cents.

Our final rule will tell these tariff filing services just what accounting principles they have to go by, and what documents they will have to save for any audit. They don't know this yet because they haven't got the final rule. There are probably many of them who want to sell a package to a carrier for X dollars. But until they get the rule, they won't know how much it is really going to cost them to provide this service. That is going to delay the filing of many of the tariffs until maybe next month or close to the deadline on this first batch of filers which is, I think, June 4. So the Davis bill will affect implementation in that way.

Mr. LIPINSKI. Have there been any other significant problems in implementing the ATFI and collecting the fee? Have you had any other special problems that you haven't already covered in this?

Mr. HATHAWAY. No. We haven't had any other special problem. There are always people who will come to us and say, "Hey. We have a different way that we would like to file our data. Can you take that?" We are looking into one of those right now, and it turns out that if they do it a certain way, it is going to be extremely expensive. So we may have to tell them, no, they can't unless they do it another way. I expect that we will get those requests forever because computer science is improving all the time, and people are going to find different ways to file the data. We have set up a committee to handle that, and so I don't anticipate any difficulty in that regard.

Mr. LIPINSKI. Chairman Hathaway, I want to thank you very much. Do you have some questions? Mr. Bateman?

Mr. BATEMAN. I am sorry, Mr. Chairman. I do have a question. Looking at your written statement, Chairman Hathaway, there is a reference to \$379,000 in relocation expenses in addition to the increases in rentals that you have mentioned. And it indicates that you were not aware that GSA was planning your relocation. I am very intrigued by GSA suddenly without requests or any initiative on your part says, "Hey. You are going to move." Could you explain how that came about?

Mr. HATHAWAY. Well, it is difficult to explain, Congressman Bateman. As you know, all of the administrative duties of the Commission are handled by the Chairman, and I was not Chairman at that time. I am not blaming the previous Chairman. It is just that I wasn't privy to all of the conversations that went on between GSA and the Chairman, although he told us in general terms what we had to do. I think he was upset that they didn't notify us until the last minute.

I think it's possible that GSA found that they could get this building, which had been contracted for by the District of Columbia when Mayor Barry was mayor. Then, when Mayor Kelly came along and said, "We don't want the building," the building owner might have said to GSA, "Hey. Here. We will give you a building. You can get a period of free rent," and so GSA grabbed it. GSA then went around looking for people they could put in there. They spotted us, and let us know about the move in December 1991. Then the threat was, "Well, if you don't take this, you may end up



in Silver Spring or Bethesda or someplace else and not downtown where you would like to be." So that is a possible explanation.

Mr. BATEMAN. Well, that is very interesting, but what you are telling me would seem to indicate that for a rent-free facility you got an increase in your rent that you pay to GSA.

Mr. HATHAWAY. That is right. Under the law, GSA can do that. They are charging us what the prevailing rate is in that area—an average of \$37 a square foot. I understand that across the street at the FERC Building, where GPO has some of its headquarters, the new rental agreement will be approximately \$37 a square foot. And even if GSA is paying nothing, under the law they are entitled to charge whatever the going rate is.

Mr. BATEMAN. This may not be the forum in which to pursue this in any depth, but I think it would be of some interest to some of the members especially those who are also on the Armed Services Committee that we determine in the base closure proceedings that are ongoing that several Navy major commands are being moved out of an area in Arlington County called Crystal City ostensibly to save money because the leases are so high, only to learn that GSA is charging the Navy a fair market equivalent rent that is dramatically higher than what the actual marketplace rentals are. And it seems to me that you are suffering from something of the same thing. I hope they aren't going to close you down because—

Mr. HATHAWAY. No. There is one other factor that I didn't mention. The lease had expired at the building that we rented previously on the corner of L Street and 11th. And, according to GSA, the building did not meet GSA's requirements. It needed another stairwell at one end of the building, and possibly the owner was not willing to make those improvements. We were not notified of this until late in the year. The lease expired and we really didn't find out until December 1991 that this was going to happen.

Mr. BATEMAN. Well, I have raised these questions not to piliory you or the Commission about anything, but it does seem, in passing, strange to me that agencies of the United States Government, which properly have to deal with and work through the General Services Administration, find themselves a victim of decisions made that they are not consulted about or not involved in. And that would seem to me to be a rather unfortunate practice and perhaps something that some committee of Congress having oversight over GSA might need to get into.

Mr. HATHAWAY. I agree.

Mr. LIPINSKI. Any other questions of this panel? If not, Chairman Hathaway and Mr. Walsh and Mr. Bourgoin, we want to thank you very much for your testimony this morning. It has been most helpful, and we do indeed appreciate it.

Mr. HATHAWAY. Thank you, Mr. Chairman, members of the subcommittee.

Mr. LIPINSKI. And this panel will be excused, and the second panel will be comprised of the Honorable Richard E. Bowman accompanied by Bruce Carlton and Michael Delpercio. Mr. Bowman, in accordance with the usual practice here, we will make your written remarks a part of the record. If you wish to summarize the

important points that you raise and then make yourself available for some questions, we would appreciate it. You may proceed, sir.

**STATEMENT OF RICHARD E. BOWMAN, ACTING ADMINISTRATOR, U.S. MARITIME ADMINISTRATION; ACCOMPANIED BY BRUCE J. CARLTON, DIRECTOR, OFFICE OF MARITIME LABOR AND TRAINING, U.S. MARITIME ADMINISTRATION; MICHAEL DELPERCIO, JR., DIRECTOR, OFFICE OF SHIP OPERATIONS, U.S. MARITIME ADMINISTRATION**

#### **STATEMENT OF RICHARD BOWMAN**

Mr. BOWMAN. Thank you, Mr. Chairman. I will do just that. There are a number of points that I feel are important with regards to the Maritime Administration that I would like to cover. I am certainly pleased for the opportunity to be here before you today. I also want to express to the members of this committee my great appreciation for their kindness to me during this period of time that I have been the Acting Maritime Administrator; the opportunity for a number of things that I found tremendously important in responding to questions that the Secretary of Transportation has asked.

He certainly has been tremendously interested in the maritime industry and what has been going on; and the opportunity that many of you have given me to discuss informally your views, concerns, and issues that you feel need to be communicated directly to the Secretary, have been communicated, and I very much appreciate the kindness and the opportunity that many of you have given me to share your ideas so that I could pass them on to the Secretary. I look forward to continuing our discussions on issues that are of concern to you and things that we can respond to quickly. It has been a wonderful opportunity, and I appreciate that kindness that each of you have granted me during this period of time.

There are a number of areas that I think are important, Mr. Chairman, to discuss as part of our 1994 maritime appropriation request—authorization request. One of the things that I think is probably most important, and I would like to back up over a little bit and reiterate, in 1993, the Congress provided us some additional moneys. We learned a lot from Desert Storm. One of the things we learned, that laying up used ships and spending very little money on them and then expecting them to be able to pull out and be able to operate in four or five days and be responsive to the military's needs isn't the way to lay up ships.

In 1993, the Congress, after many years, provided us a substantial amount of funding; in fact, \$240 million in 1993 for maintenance and repair which provided us with tremendous assistance as a follow-up to the ships returning from Desert Storm to do the kinds of things necessary to assure that we have, in fact, an active Ready Reserve Fleet that, in fact, is ready to go when the bell rings in four or five days. We very much appreciated that, and we have followed and worked very aggressively to make sure that as the ships returned from Desert Storm and the cargoes were returned, that those ships had major overhauls, including overhauls of ship-board equipment. Many were given dry dockings and all extensive

sea trials. That really helps us put the RRF fleet in a pretty good readiness status at the present time.

As we look forward to 1994, obviously one of the major concerns that we have and I know is shared by each member of this committee—and last night I heard Chairman Studds speak very eloquently about his concern about maritime reform. I, for one, and I know the Secretary and others are delighted about this interest that is finally starting to build kind of a crescendo. There is no question that something needs to be done. I am essentially a newcomer in the Maritime Administration; only been there since 1984 and have watched the American-flag fleet decline.

Today, we are carrying, in the liner industry, less than 20 percent of our goods, and on the bulk side of the industry, we are finding that we are carrying less than five percent. To me, just as a taxpayer, it is a matter of major concern when I see how little of our imported goods we are hauling, particularly oil.

I am delighted that the Secretary is investing a tremendous amount of time and energy on this issue. I know that shortly he will be moving forward with some ideas that he wishes to present to the Congress for consideration.

Our 1994 request, Mr. Chairman, covers \$240 million for the Operating Differential Subsidy Program. That is to maintain the almost 85 ships that we have operating in the subsidized fleet today. In addition, we requested \$80 million for operations and training which provides the moneys for the merchant marine academy and the National Defense Reserve Fleet. I already mentioned earlier and discussed the Ready Reserve Force (RRF). We have requested \$300 million for the Ready Reserve Force for 1994. Of that, \$140 million, Mr. Chairman, will be used for maintenance and repair and \$160 million for fleet additions.

In summary, Mr. Chairman, this is a tight budget year. The Administration is trying hard to balance the budget in working with the Congress, and we are obviously very concerned about those things. We are concerned about the Maritime Administration's budget. We want to make sure we meet the readiness requirements of the Department of Defense for the RRF, and we stand ready to take this budget that we have presented to you and make our best efforts to meet the readiness requirements and to provide the opportunity for an active sailing merchant marine. Thank you, Mr. Chairman, for the opportunity to provide these comments.

[Statement of Mr. Bowman may be found at end of hearing.]

Mr. LIPINSKI. Thank you, Mr. Bowman. Mr. Bateman, do you wish to inquire?

Mr. BATEMAN. Yes. Thank you, Mr. Chairman. I would like to reiterate the comments made at the outset concerning you, Mr. Bowman, and the services you have provided. You have been a great resource person for the committee and for the maritime industry. I do have a couple of questions. First, could you give us any insights as to when we could expect a maritime revitalization package or program to emerge from the Administration?

Mr. BOWMAN. Mr. Congressman, some weeks ago Congressman Carr asked Secretary Pena about his plans in that regard, and the Secretary indicated that his plans were to provide something in the late April/early May timeframe. As we work together, and I have

been fortunate to be working hand-in-glove with the Secretary on the development of those ideas, that timeframe remains as the Secretary had planned. He is still pursuing that timeframe to meet that commitment.

Mr. BATEMAN. Well, that is certainly encouraging, and all of us on the committee will look forward to receiving it, and I hope the timeframe doesn't have to be slipped. Now, I have got a rather specific and more narrow question I would like to raise with you. Basically, the concern is a long-recognized need to dredge the approaches to the James River Reserve Fleet off of Fort Eustis in the James River in Virginia.

My understanding is the need to do this has been identified a long time ago, that the Corps of Engineers worked out with people in the Maritime Administration an arrangement whereby a dredge disposal site would be found. An upland site was found. I can tell you that realistically if you want this dredging done, you are not going to dispose of the dredged material overboard in the James River where the most productive seed oyster beds in the world are located. It just ain't going to happen that way in that body of water. And so it is essential that you get about obtaining this dredge disposal site. The site is identified. The site is approved by the Corps of Engineers. The environmental problems are handled and recognized and complied with.

It is more than time for you to go forward with the Corps of Engineers, do what you have to do to acquire this disposal site which I understand the owner is even willing to lease rather than require you to buy it. The need for the dredging is going to get worse rather than better as more time expires so I would simply encourage you to look very particularly at this, take the action that is necessary, and get about doing what has to be done.

Mr. BOWMAN. Mr. Congressman, we are looking at that, and I would like to have the opportunity to get back to you in a little bit more detail in terms of where we are. I understand part of the problem is not only just around the reserve fleet site, but also some of the major dredging that has to take place to get in and out of that site. But if I may, I would like to provide more for you on the substance of that.

Mr. BATEMAN. Well, that is certainly acceptable. It is even desirable, and I look forward to a visit concerning that.

Mr. BOWMAN. Thanks. I would be pleased to do so.

Mr. LIPINSKI. Mr. Taylor, do you have any questions you wish to ask at this time?

Mr. TAYLOR. Yes, sir, Mr. Chairman. Mr. Bowman, I realize that you are not the Chairman, but you are the Acting Chairman, and, therefore, you get the brunt of these questions—

Mr. BOWMAN. OK.

Mr. TAYLOR [continuing]. even though I know you didn't do it. I would, looking at the remarks that have been presented, question the priority throughout MARAD. Number 1, I think and I would like an explanation for the decision to cut the Title XI funds which, I think, is one of the best programs this nation has. Number 2, I find it strange that after getting the RO/RO's and after the Congress making it very clear that that was one of our priorities, that we had to have this for national defense needs, getting them

up to operating status, I question the movement to not keep them in ROS. And, quite frankly, I think that is more important than some of the other things you are doing.

Number 3, I am concerned getting to the maritime academies, I have heard that not all of their cadets are required to do something in return for that free taxpayer-paid education, that some of them actually get a diploma and then just go. And I don't think that that is in line with the national service that Senator Nunn has been pushing for many years. Quite frankly, when the young people come into my office seeking appointments to the different academies, I find it a tremendous discrepancy between telling a young person who wants to join the Navy that he is going to serve for four years upon graduation; the Air Force Academy, the Army, and then telling the guy, "Hey, you might get off scot-free and get a free college education." I am not so sure that is fair to the taxpayers, nor do I think it is very good planning on our nation's part.

So, if you would, and also supply to me when you get it—I understand on the fourth page of your preparatory sheet you are talking about at some point having a minimum enhancement requirement for tankers, and I would, when you get that, like to see that along the lines of trying to do something down that line.

Mr. BOWMAN. Let me respond first, Mr. Congressman, to the Title XI question. Title XI has been one of the hallmarks in many ways for ship construction in America. It is a program that has built many, many ships in the United States. At the present time, there is over \$2 billion outstanding in loans for ships that have been built in United States shipyards. The Congress has provided us an authorization of \$9.5 billion, so there is plenty of room for additional construction in this country.

When our budgets were put together, there were some discussions about Title XI, and as we talked about it, I think there was a recognition that Title XI is also one of the parts of a much broader maritime reform concern. Many of the concerns that you, Mr. Congressman, and other members have raised with me in our visits on Title XI have been discussed now by me with the Secretary, and as part of his overall review, I am sure that is one of the items that he is looking at on the basis of recognizing that jobs are important, the shipbuilding base is important, the concern for the American infrastructure, and other things that are of overall concern to this Administration. That is an issue that is getting plenty of the Secretary's attention at the moment, as we pursue considerations of maritime reform.

With regard to the RRF, as I indicated, one of the things that we have been very fortunate with is the additional moneys that have been provided by Congress in 1993. We have acquired the additional RO/RO's. Those RO/RO's, because of all the work that is being done, will be in excellent condition when we start to lay them up by the end of the year. At the present time, the RO/RO's will all be on four- or five-day readiness status.

We are working with the U.S. transportation Command on the impact of readiness with the budget levels that we presently have in front of us, but the first priority ships, the roll on/roll off ships, at the moment are planned to be in four- and five-day readiness status so that they can be pulled out and ready to go. The four-day

ships will have 9 or 10 people on board in with an annual sea trial, and the five-day ships will have a biennial sea trial with a two-person crew on board. Both of those groups are outported close to military loadout ports so that they can, in fact, be loaded and provide surge sealift very quickly.

With regard to the state school question, Mr. Congressman, I would like, with your approval, to have Mr. Carlton, who handles our maritime labor and training issues, speak to the issue of the students and their sailing experience upon graduation.

Mr. CARLTON. Mr. Taylor, that is a very good question. If you will allow me to differentiate between the United States Merchant Marine Academy and the State maritime academies, we have two very different situations. I think it was very clear that it was this committee's intention when, under Chairman Studds's special subcommittee in 1979/1980, they wrote the Maritime Education and Training Act that this committee wanted graduates of the Merchant Marine Academy and a large number of the State maritime academy graduates to go to sea in the United States merchant marine—at least in their initial career-entry positions.

But the committee also recognized that the American maritime industry might indeed not be sufficiently robust to absorb a lot of third officers every May and June as the graduates received their diplomas so the Maritime Education and Training Act provided several options to these students. Very clearly, at the Merchant Marine Academy, which is a full-scholarship program like the military academies, Annapolis, West Point, Air Force, and Coast Guard, those students do not pay for their education, and they have an obligation upon graduation to either take a job on a U.S.-flag ship, take a job in the American maritime industry, or go on active duty in any branch of the Armed Forces or any combination of those three. There is a fair degree of flexibility there. And as this committee understands very well, there are not enough entry level officer jobs to absorb all of the graduates every June out of the Merchant Marine Academy and their close competitors, the state maritime academies.

Switching to the State maritime academies, only those students who have received financial assistance from the Maritime Administration, the so-called Student Incentive Payment Program, SIP program—only those graduates are obligated to take similar employment, again, either on ships, maritime-related ashore, or active duty in the military. My judgment of the performance of that, Mr. Taylor, is that by and large we have a very high degree of compliance with those provisions of the law. Is the compliance perfect? No, sir, it is not. If I had to give you a number, I would say we are probably at a 98–99 percent level of compliance. Quite honestly, we have not had an effective tool to ratchet the few graduates who choose to ignore their obligations to the taxpayer.

Certainly, the administrators of the schools, the presidents of the various schools, understand full well what the obligations are on the students, and they do counsel them correctly to take jobs in the maritime industry. I will just add that the Congress did give us a good tool for King's Point graduates. I think it was about two years ago. We now have the authority that if we have somebody who is flaunting their obligation, in that rare circumstance, we may go

after them to have them repay the cost of their education. And I am very pleased to tell you we have not used it yet.

Mr. TAYLOR. Mr. Chairman, would you mind if I had one follow-up question?

Mr. LIPINSKI. Go right ahead, Mr. Taylor. Make it brief.

Mr. TAYLOR. It will be brief. Mr. Bowman, my friend, Mr. Welch, informs me that the DOT did approve 50 million for Title 11 but that OMB zeroed it out. I am curious. As you are working toward a maritime policy, will this be one of your priorities, to sit down with the people from the Administration and say, "This is an important program," or where are you now on this? Are you just going to say, "Well, OMB doesn't want it. Therefore, we won't ask for it"?

Mr. BOWMAN. No. This issue is being revisited in the context of the maritime reform discussions.

Mr. TAYLOR. OK. Thank you, sir. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you, Mr. Taylor. The Chair recognizes Mr. Cunningham.

Mr. CUNNINGHAM. Thank you, Mr. Chairman, and I would like to thank you, Mr. Bowman. You have been an aid, and I would also like to associate my comments with those of my colleague, Mr. Taylor, on the importance of Title 11 funding. I would like to draw you a picture, and maybe just to show you what my intent is and let you answer the question. I have a concern with our sealift capacity. As you mentioned, in Desert Storm your efforts on logistic support actually saved lives by having the ability to get our equipment in place and having our people more efficient and ready.

But in the President's budget, there is an additional \$127 billion cut in Defense, and I take a look at your program, and I would ask, looking at Secretary Pena's efforts to develop a new Maritime Reform Act, first of all, where will MARAD and the Department of Transportation get the funding to pay for the operators' proposals? Second, do you have a shortfall? And, third, if there is a shortfall, which I believe there is, are you going to try and reach over in DOD and take funds, when we are cutting to the bone marrow especially in the out years with the President's budget. Do you know where you are going to receive these funds from?

Mr. BOWMAN. Let me see if I can speak to part of that, this whole issue of funds and where the funds are coming from. It is almost as if we are looking at a maritime reform program and all the agencies feel that "Well, if it is not going to come out of my pocket, I am interested in the American merchant marine. But if it may come out of my pocket, I am no longer interested in it." They all say, "We want them there to make sure our American ships are competitive and so the foreigners don't, if you will, rip us off." They are saying, "We all want ships there in the time of national emergencies so we don't have to charter foreign-flag ships, the rates of which were just as high as anybody can imagine, but if it has to come out of my pocket, I will see if we can do it some other way."

The Secretary has not made any efforts, as far as I am concerned, to look in some other Department's pocket for money for the maritime reform program. He is looking and working with us, and within the Administration on coming up with a program that meets the needs of the merchant marine. He will be discussing

with the various sources at the White House, and others, on how that is most appropriately funded. We have not gone into the detail of that until such time as the package comes forward. How the package will be funded is not yet decided. It has not been looked at—to pick it out from the other agencies. Their budgets, as far as I understand, are already on the Hill.

I would say that the Secretary also plans to include the funding requirements, whatever they are, with his package. His intention is to begin in 1994, and not put it off until 1995. I think it is unfortunate that the discussion of funding is clouding the need for an American merchant marine, and I would hope that in working with many of the members of this committee, and so on that we are trying to deal with the substance and the need for an American merchant marine. We carry two and a half percent of our bulk cargoes. I think that it is for the largest and most militarily powerful nation in the world, a sad commentary, and I know that this opinion is shared by all the members of this committee.

The Secretary is working to put his hands around this, and I am encouraged by that, and I think the committee will also be encouraged when he moves his ideas forward with the money that will go with it.

Mr. CUNNINGHAM. As one President used to say, "I would like to make this perfectly clear," is that I do support a strong merchant marine, but I do have concerns about with our dwindling Defense dollars that we don't cut even further into the bone marrow than we already are. Thank you.

Mr. BOWMAN. If I may, that is a wonderful point. As they have cut back, it has added to the requirement to have a healthy merchant marine ready to go. One of the concerns for the RRF is that we have outported all of those ships. It is imperative that the maintenance and repair, and funding for those fleets are maintained so that there is readiness in all those outporting locations. It is also critical, in terms of sustainment cargoes, that the tremendous capabilities that are in the hands of today's American carriers are available to be used. I am talking about the entire systems—the intermodal systems door to door as opposed to shore to shore. I really appreciate the support, Mr. Congressman, that you have given us.

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you very much. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman. Mr. Bowman, let me just expand on this line of discussion. As you know, we have lost about 120,000 shipbuilding jobs in just the past few years. With cut-backs in Defense and the fewer and fewer naval ships that we will be constructing, that can expect to be going up even more. I am very, very concerned, as I think the entire subcommittee is, about the discrepancy between the Transportation's request for Title 11 and what we are seeing from OMB and the statement that that is making with regard to the Administration and shipbuilding.

I serve on the Armed Services Committee as well as this committee, and last year because of bipartisan concern for the shipbuilding infrastructure of this country, the Secretary of the Navy came before us and said he was very concerned that the direction that we are going could harm our national defense interests in the



future; that is, our shipbuilding industrial base was getting so weak it was beginning to have direct defense implications.

As a result of that, last year the Armed Services Committee, in its authorizing bill, set out for the Administration to coordinate the various Departments of the Administration including Transportation, including Defense, including Commerce, including our Office of U.S. Trade, to come up with a coordinated strategy to revive commercial shipbuilding in the United States. And certainly Title 11 would be a piece of that. Can you tell me what your agency is doing with respect to that task force and that coordinated approach? What kind of discussions are going on right now within your agency?

Mr. BOWMAN. It is my understanding that the Secretary is working with that task force. But over and above that, as part of our maritime reform discussions, the whole issue of shipbuilding, the decline in the shipbuilding base, the need for our shipbuilding industry to be competitive with the foreign shipbuilders, the unfortunate subsidizing of the foreign shipbuilding industry that puts our shipbuilders on an uneven playing field, all of these issues are presently being discussed with a wide range of other Federal agencies that are affected. So those issues are on the floor at the present time as a result of, if nothing else, the Secretary's maritime reform initiatives and the discussions that he has initiated.

Mr. ANDREWS. Can you tell us why OMB zeroed out Title 11?

Mr. BOWMAN. I take a deep breath. My real job at the Maritime Administration is responsible for the Title XI program and the operating subsidies programs. So, having particular concern for that, I think as a practical matter, there has been concern over the years about providing financing of this type when, in fact, the Administration had felt that maybe this is the kind of financing you get on the private market. We have worked very hard to indicate that many lending institutions are not inclined to lend, at fixed rate financing for a long period of time—the periods of time that most operators amortize the price of their vessels.

I think that has been one of the major concerns. I think the program is one of the better-managed programs, not because I have anything to do with it, it started long before my time. But I think the effort that they zeroed out during this year's request, I think, is right back on the forefront as a result of the Secretary's considerations. I think we will see something, whether it is Title XI or something comparable. I don't know when the Secretary will finally decide when shipbuilding is at the top of the list, and Title XI is certainly very much one of his considerations. I would add that a number of the members of this committee made it very clear to me in some visits we had not many weeks ago that this was a critical issue, and I shared their specific views and concerns with the Secretary, and he well understands them.

Mr. ANDREWS. Well, thank you, Mr. Bowman. Let me just say in conclusion, Mr. Chairman, if you take a look at any of our competitor nations including those that are eating our lunch in this international competition, you will see a direct relationship between the public and private sector—a cooperative one as they both work together to achieve some common ends. And if you look at our small business sector - I serve on the Small Business Committee as well,

and you look at the success of loan guarantees in that sector, helping to get good ideas off the drawing board and into the economy, this is one vital area that I believe the public sector can make a contribution.

Mr. BOWMAN. Yes. Thank you.

Mr. LIPINSKI. Thank you, Mr. Andrews. The Chair now recognizes Ms. Fowler.

Ms. FOWLER. I don't have any questions, but I do just want to add to the concerns of some of my colleagues about the elimination of the Title 11 funds so I hope you are successful, and let us see if we can get some of those back in. Thank you.

Mr. BOWMAN. Thank you. I will again re-enforce to the Secretary the concerns of this committee.

Mr. LIPINSKI. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Bowman, I would just like to associate my remarks with Congressman Taylor and Congressman Andrews because of the concern. I am a freshman on the committee, and I don't have any shipbuilding in Houston either. We used to, but I think all of us recognize that we have to make some changes, and that is why I asked to be on this committee.

The question I would ask is concerning the decrease in your testimony in the request for appropriations in the Ready Reserve Fleet, do you really feel like that will meet the DOD requirements when we are requesting a decrease of 140 million?

Mr. BOWMAN. Mr. Congressman, for 1994, I believe we can meet the readiness requirements, but I am not about to sit here and tell you that if this kind of funding level continues, we will continue to be able to do so. Congress, in the Coast Guard Authorization Act, put very specific sea trial requirements on these ships. We will not be able to meet those requirements in a very short period of time. We are concerned about that. I have been working hand-in-glove with Mr. Delpercio, MARAD's director of the Office of Ship Operations, and the United States Transportation Command. For 1994, we will be able to meet readiness requirements, but if this continues, there will have to be some degradation in the readiness requirements, and we will have difficulty meeting the congressionally mandated requirements in the Coast Guard Authorization Act of 1991.

Mr. GREEN. Hopefully, we will remember that next year and reflect that. Thank you. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you, Mr. Green. Mr. Bowman, this committee and its members have been outspoken, to say the least, with their concern over agency noncompliance with cargo preference laws. The President recently announced expanded food aid to Russia under the Food for Progress Program. Do you agree that the Cargo Preference Act requires 75 percent of these cargoes to go on U.S.-flag vessels, and what is the Department of Transportation doing to ensure full compliance with cargo preference laws for aid to Russia?

Mr. BOWMAN. First, we absolutely agree that cargo preference applies. And what we have done is pursue every opportunity where we think somebody is deviating from the requirements of the statute, to bring it to their attention and, if necessary, take it to the

Secretary and to the other agencies. On a number of occasions very recently, a number of other agencies decided that there were certain areas where the programs did not require cargo preference. We have kept the Secretary posted when there was a deviation, and I have written personal letters.

At the present time, with regard to Russia, there is complete compliance. There are some questions by one of the shipper agencies with regard to whether American tankers should be allowed to carry American corn, because last year's corn crop apparently had a high moisture content. At one point, there was an indication they were going to reject American tankers. As a result of the efforts of our staff, they have put that on hold because there were some very successful carriages to other parts of the world in tankers of American corn without any spoilage. That is under reconsideration. Otherwise, so far, the American-Russian Grain Program shipping is in compliance with the statutes that require the 75 percent.

Mr. LIPINSKI. Are there any suggestions that you might have to this committee that would be able to aid and assist us in helping to make sure that cargo preference is always enforced? What can we do to help you and to help see this law as fully enacted?

Mr. BOWMAN. We are looking, as part of Maritime reform, with the Secretary, at some of these cargo preference issues. I would like to wait until the Secretary has had a chance to further review these before we respond to that. But there is one thing that I would like to mention about this. I testified before the Appropriations Committee, and they asked comparable questions, pushed very hard about the issue about Kuwait. Mr. Chairman, you specifically asked me about Kuwait as did other members here. We talked about the fact that the Kuwaitis had, in fact, after we essentially freed that nation, really been ignoring the use of U.S.-flag vessels. Thirteen-fourteen percent of the goods shipped to restore that nation and rebuild it were shipped on U.S.-flag vessels.

As a result of letters from members of this committee, and other members of Congress after we talked, letters to the Ambassador, I am here to tell you that a State Department official informed me yesterday in one of our meetings that the Kuwaitis now intend to comply. Messages have been passed through the Kuwaiti Government that their ships, Kuwaiti-flag ships, and American-flag ships are to be given equal rights to transport stuff to Kuwait. I must say that is an issue where you leaned in very heavily on our behalf, and I think the day has been won. I appreciate it. I think that is one of the most efficient ways—when these issues come up, our opportunity to very quickly communicate with you, indicate what the issues are, and have the opportunity for you to express your views.

It is my understanding that we are starting to look into the 100,000 tons of grain to go to Russia, and the financing of that grain through the Department of Defense. It is my understanding you have written and requested the information on the basis of how they did that because the grain went on foreign-flag ships. We are also trying to find out how the financing was done for that. If it was done with 1992 funds, the law allows it to have gone on a foreign-flag vessel. If the funding for that was 1993 funds, shipment should have been U.S.-flagships. We are pursuing that. I appreciate

the support that you and other members have given us on those issues when we raised them with you, and I intend during my time to keep you posted as these issues come up so we can work together to assure that the law is being met.

Mr. LIPINSKI. Well, I am very happy to hear about the situation with Kuwait. I think that is a victory for all of us. I think it is very important that we keep open lines of communication and very quick lines of communication because I believe that members of this subcommittee are very interested in helping you do your job and seeing to it that the laws that will benefit the merchant marine in this country are fully enforced. And I think the more the members of this committee become involved in those issues with letters, with conversations with people, the easier your job will be, the easier our job will be, and the more successful the merchant marine industry in this country is going to be. Thank you. Mr. Bateman.

Mr. BATEMAN. Thank you very much, Mr. Chairman. Mr. Bowman, I am certainly encouraged to hear what you have said with regard to the Kuwaiti situation that we interested ourselves in and would be interested in the event we don't routinely get copies of their official communication would like to have it to my office. The other point that I think we need to make as a follow-up to what you said and to the Chairman's very cogent remarks is you mentioned that you are pursuing from time to time various potential problem areas of cargo preference compliance. If you could routinely advise the committee or its staff each time these issues present themselves, perhaps we could be of more assistance to you and be more immediately ready to provide that assistance if we knew at the very outset when issues arose in order that we might try and deal with them.

Mr. Chairman, a housekeeping measure. I would like to ask unanimous consent that the statement of our colleague, Mr. Fields and Mr. King, be made a part of the record.

Mr. LIPINSKI. Without objection, so ordered, Mr. Bateman.  
[The statements mentioned follow:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND  
RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I am delighted that we are proceeding to consider the President's budget request for the Federal Maritime Commission (FMC) and the Maritime Administration (MARAD). I am delighted to welcome Senator William Hathaway, the Chairman of the FMC, Mr. Richard Bowman, the Acting Administrator for MARAD, and the Superintendents of our six state maritime academies.

I look forward to hearing Chairman Hathaway explain the FMC's anticipated programs for the coming year and hope that he will specifically address the Commission's possible investigation of the shipping of U.S. Government aid to Kuwait. A number of us on this Committee were quite concerned when we were told that virtually none of that assistance has been shipped on American ships. Apparently, the government of Kuwait has been reluctant to even seriously discuss this matter with Government representatives. This would be an appropriate investigation for the FMC under its authority to look into unfair shipping practices.

I believe that the budget for the FMC is reasonable, and barring some unforeseen developments, I would assume that this request will be favorably considered by the Committee.

I am also particularly interested in hearing Mr. Bowman explain the budget request for the Maritime Administration. If I understand the Administration's proposal, while the Department of Transportation's overall request has gone up 10.2 per-

cent above the amount appropriated in fiscal year 1993, the request for the Maritime Administration has gone down 33 percent from last year.

I find that particularly perplexing in light of the Secretary's public meetings involving the preparation of a new Maritime Revitalization Program. Not only is there nothing in this request for a maritime program package, but the only Federal program designed to assist our shipbuilding industry, the title XI Loan Guarantee Program, has been zeroed out entirely.

I hope Mr. Bowman will also address how he intends to ensure that the vessels in the Ready Reserve Force (RRF) are maintained in a status that would insure a rapid deployment in the event of a future need. Last year, Congress provided funds for the maintenance and operation of these RRF vessels to make sure that the deactivated RRF ships would be maintained, with crews, so that they could be broken out immediately. With the \$93,000,000 reduction for this program, I do not see how it can be continued in its current form. The Committee should look carefully at this item.

Mr. Chairman, as you know, a key part of MARAD's authority is to provide support to the maritime training academies. Over the years we have fought long and hard to assure adequate funding for these schools. We have been involved in the funding for simulators for the state academies as a way to provide a training capability without having to use expensive at sea time aboard training ships. These simulators provide an excellent opportunity for students to learn the ways of ship and cargo handling in a very cost effective way. I hope that we continue adequate funding for this effort.

I assume that the representatives of the state schools will discuss this and other issues of concern to the academies and I look forward to hearing their presentations today.

Mr. Chairman, I want to thank you again for holding this hearing. I look forward to working with you and the other Members of this Committee as we formulate the necessary authorization legislation for both the FMC and MARAD.

#### STATEMENT OF HON. PETER T. KING, A U.S. REPRESENTATIVE FROM NEW YORK

Thank you, Mr. Chairman.

I am pleased to be joining with the distinguished ranking member, Mr. Fields, in cosponsoring the Maritime Academy Licensing Relief Act.

New York is fortunate to be home to one of the maritime academies, the State University of New York Maritime College at Fort Schuyler in the Bronx. As Admiral Miller will attest later this morning in his testimony, this legislation will greatly benefit students at this institution.

The Admiral has informed me that graduating students who will be taking the Coast Guard licensing examination will have to pay \$424 just to take the test. I believe that this user fee is unfair in that the Federal Government should not be dictating graduation requirements to a state educational institution.

I look forward to working with the Subcommittee on this important legislation.

In addition, I am interested in hearing the testimony of our witnesses this morning representing the Federal Maritime Commission, the Maritime Administration, and state maritime academies.

Thank you, Mr. Chairman.

Mr. BATEMAN. And I have two other questions that I withheld asking earlier in order to give other members of the committee an opportunity to ask their questions.

Mr. LIPINSKI. Please go ahead and ask those questions now.

Mr. BATEMAN. This is another rather specific one, Mr. Bowman. It is my understanding that the Maritime Administration recently sent a letter to Keystone Shipping stating that it could place one of its tankers, the Coronado, a CDS ship, into the Jones Act trade. In turn, Keystone has used that letter, as I understand it, to enter into an agreement with Mobile for a charter of the vessel in question. This may well mean that Mobile will delay anticipated construction of a new tanker in an American shipyard. This will cost, obviously, our desperately needed U.S. jobs and delay the realiza-

tion of a double-hull tanker fleet. Therefore, it would seem to have both negative economic and environmental impacts.

And so that brings me to the question of what is the Department of Transportation and the new Administration's position on allowing CDS vessels to enter the Jones Act trade and whether it would be a good idea to have some outright prohibition on CDS vessels entering the Jones Act trade after they reach a certain age?

Mr. BOWMAN. Mr. Congressman, this is one of those tricky issues. Let me try and respond as best I can. First of all, with regard to Keystone, our indication to Keystone was that the statute said that they have to be out of the domestic trade. When they were built with construction subsidy, they were required to operate in foreign trade and not in the domestic trade. There were a few exceptions, but they were not allowed in that trade until after the end of the 20 years. Our communication with Keystone was only to say that the law says they cannot operate within the domestic trades until that 20 years has expired. There was no change in our communication with regards to that.

We also, in looking at the tankers in the domestic trade, as well as the international trade, are as anxious as anybody to get new double-hull tankers out there and operating. Unfortunately, we haven't been able to get the oil companies to give any kind of a charter of significant length that would encourage anybody to build in a U.S. yard. We believe the statute, as it is presently written, indicates that at the end of the fully amortized life of a CDS vessel, it is eligible to operate in the domestic trade. We look at the age of many of the ships and the tankers in the domestic trade, and they are much older than some of the CDS tankers. We view it, at least in the very short-term, that they are all going to have to depart because of the lack of a double hull.

In the interim, that is the way we believe the statute has been written. That is the interpretation we give, and we view while there is a short-time good-getting older ships out when the CDS vessels come in, in the long run, we want to get them ultimately all out and have them replaced with double-hull tankers. But that is the provision of the statute as it presently exists, and we are just responding to it accordingly.

Mr. BATEMAN. Well, I would very much welcome a visit by you or anyone else you want to send or bring to sort of give me an overview of the existing statute, how it is working in the real world environment, and how if any way it might be modified so it would be more constructive in the real world environment in which we find ourselves.

The next question is a more than generic one. We await, as you have indicated later this month, a maritime reform package. And my question is when we receive that, will there be in that package a shipbuilding enhancement program of some kind or as an aspect of the problem including perhaps such things as investment tax credits, accelerated depreciation, or some endorsement of the Gibbons bill in order to try and achieve the level playing field that we all recognize we need for domestic shipbuilding?

Mr. BOWMAN. Mr. Bateman, if I may just follow up on the last question, I will make time personally available when it is convenient with you to come up, lay out the number of ships in our entire

industry that are affected by CDS and the other ones so that you have a complete picture and explain that statute, and I would be delighted to do so. And I will ask my staff to work with yours to accomplish that purpose.

On the other issue, I don't want to get ahead of my Secretary who is looking at those issues, but let me say, Mr. Bateman, that he is very concerned. He is looking at these shipyard issues. He is not about to provide a maritime package that deals with one segment of this maritime industry. One of the points he has made to myself and the others that are working with him, is concern about this industry in terms of its totality and not a piece here and a piece there. And he is looking at all of that. Each one has its own uniqueness, its own difficulties, its own set of circumstances that impact on it in terms of the way our foreigners deal with their comparable industries. He is looking at each one of those, and many of the items you mentioned are, obviously, items that he is looking at.

Beyond that, I don't want to get out in front of him, but something would be here I have high hopes shortly, and I hope to have the opportunity either myself or with my new administrator to be sitting with you and sharing with you those ideas to reform this industry.

Mr. BATEMAN. Mr. Chairman, recognizing the constraints under which Mr. Bowman operates, I think that was a beautifully articulated answer.

Mr. BOWMAN. Thank you.

Mr. LIPINSKI. I certainly agree with you, Mr. Bateman. I would just like to say that in regards to our revitalizing the maritime industry, I know the Secretary is very busy, and he has a lot on his plate. But we are becoming very impatient in waiting for his reform package to move to us. We too have been working in this area, and I just want to say for the record that if the Secretary doesn't move fairly soon, we may be moving ourselves. We have had a lot of meetings with a lot of people in the industry and a lot of discussion about this. We want to give the Secretary an opportunity to move forward, but he is going to have to do it with some dispatch; otherwise, his will not be the first point out. I don't expect you to even respond to that. Mr. Stupak, do you have any questions?

Mr. STUPAK. No, sir.

Mr. LIPINSKI. Mr. Taylor.

Mr. TAYLOR. Mr. Bowman, again, thank you for coming today. I would like you, if you would, to either comment now or at some point in the future when you feel more comfortable to do so. We basically have three ways of maintaining—three different programs out there to maintain our ability to resupply our troops overseas which is basically why we got involved in '36, and the defense industrial base, and that is, you know, the ODS which, from what I gather, is about 240 million a year, which is a subsidy for the guys operating. You have got Title 11 which is a loan guarantee program to get people to build their ships here and about 50 million in the RRF, Ready Reserve Fleet, the ships that are set aside, about 300 million a year. In your mind, are those priorities right as far as getting the greatest—feeling the greatest defense need for the least amount of money?

Mr. BOWMAN. The ships that are laid up in the RRF are ships that are designed to be available to the military to handle surge sealift. The Title XI program is a program that was designed not only to provide financing for directly militarily useful ships but for our entire commercial fleet so that shipowners can get financing on a long-term, fixed-rate basis that would be attractive financing that can't be gotten from our financial institutions on that kind of a basis.

The condition of the American maritime industry certainly doesn't make lenders at our banks interested in participating with this industry because they have had these tremendous up and down cycles in many of the things that affect our carriers as a result of all the international subsidies and assistance provided by many foreign countries.

The ODS program is a program designed to have a fleet that is available to provide sustaining capacity for our military. Once the surge goes out, then our ships on the American fleet are supposed to provide sustaining capacity. As I mentioned, earlier, I am very concerned about the decline in the sustaining capacity. That is one of the items that we are looking at.

In terms of the priority, one of the other items I am concerned about is that, to the extent there is a decline in the operating U.S.-flag fleet, there is likely to be an effort to lay up more ships. We have found that the laying up of ships is very expensive. We have found that to lay up a ship in a four-day status with a crew of 10 on it with a one-year sea trial sitting at the dock ready to go is probably going to cost in the neighborhood of \$3.4 million. We think there is a certain number of those kinds of ships that the military absolutely has to have.

We would be concerned about a continued growth in a laid-up fleet with that kind of costs when we believe we could also have an operating merchant marine with ships acquired by the industry, crewed by the industry, crews available to crew a laid-up fleet during a time of national emergency. And that is one of the issues that we are working hand-in-glove with the Secretary to determine what we are going to do with this operating fleet that today is heavily constrained by an outdated Act that, in fact, does not encourage a lot of innovation. I think a lot of these are the kind of things that are under consideration to be revised and reviewed.

Mr. TAYLOR. May I interrupt you, sir?

Mr. BOWMAN. Yes.

Mr. TAYLOR. I find it interesting that you should say that because, quite frankly, we keep hearing that there are laws that make it prohibitive for U.S. carriers to be competitive, and that is the reason we have to have the subsidies. That is the reason we have to do everything else. And yet in neither your testimony nor in the Federal Maritime Commission's testimony did either of you come to us and say, "This is a specific problem. We are asking for a remedy." And if you don't bring it to our attention, who will? And, again, Mr. Bowman, when I say you, you just happen to be in charge today, and so please don't take this personally, but I am saying with regard to your agency, why isn't this happening? Why aren't we approaching those kinds of problems in a method where



you, on a regular basis, are coming to us and saying, "Hey. We need to fine-tune the system"?"

Mr. BOWMAN. That, as usual, is right at the heart of the issue and one of the reasons we are looking at the whole effort of maritime reform. Not only is this industry trying to level a playing field in terms of competing with foreigners, but one of the problems we have is we have the American industry competing with itself. We have parts of the American industry that subsidized a part that is not subsidized. The part that is subsidized largely has its hands tied and is constrained by a whole string of rules and regulations that are laid on them as a result of this statute and us so they don't compete with subsidy unfairly against U.S.-flag ships that are operating without subsidy.

Mr. TAYLOR. Again, you are talking in generalities, and you are not giving me one specific instance where we need to change the law.

Mr. BOWMAN. We are working to bring both the U.S.-flag unsubsidized carriers and the subsidized carriers together in agreement so we eliminate laws. Let me give you a prime example. The subsidized ships that are provided subsidy provide a certain service on a certain trade route in many cases between two end points, the United States, and, if you will, Kobe. That is where they have to operate the U.S. subsidized carriers. That is the rule. If they want to deviate from that, they need to come to us and say, "I would like to deviate from that route. There is a business opportunity somewhere else." But we have unsubsidized carriers that are operating on that other route that say, "Well, wait a minute. He is getting subsidy, and I am not. He shouldn't be allowed in my territory. He is already getting the benefit of government largess."

This is one of the items that is now being looked at, and you will see changes in these areas, I am sure, as part of our assessment of what is going on. And this is leveling the playing field, not only between the U.S. and foreigners but within the U.S. We have had tremendous competition over the years between U.S. carriers and for the most part, with our foreign carriers, but also with each other. This has been part of the cutthroat problems that we are now recognizing have to be dealt with, and will be dealt with in the Secretary's considerations.

Mr. TAYLOR. Mr. Chairman, if I can just leave you with one request, in last year's—came to speak before this committee—Chairman, I think, Kokage, came to us and said, in effect, there are a bunch of dumb rules why we can't be competitive building ships in this country so, therefore, I am asking you to take taxpayers' dollars and let people build ships overseas. I think it would be a lot smarter for your agencies to come to us and say, "Let us address the dumb rules and build the ships here." Thank you, sir.

Mr. BOWMAN. I agree and I would be delighted to come up and visit you and Mr. Taylor—give you a little bit more in the way of specifics, on some of those. But that is a good point, and we agree.

Mr. LIPINSKI. Thank you, Mr. Taylor. Mr. Bowman, please explain a proposal to allow non-U.S. citizens to act as contracted ship managers for the Ready Reserve Force. Are there any similar plans to crew RRF vessels with non-U.S. citizens?

Mr. BOWMAN. Let me speak to what we call the general agents agreement. We went out with a request for comments on the opportunity and the consideration of using what are U.S. companies and U.S. citizens but happen to have foreign ownership, for providing management for the RRF ships. Those comments are coming in. We have an array of those comments, and, obviously, we will review those in terms of making a final decision. We, in looking at Desert Storm-Desert Shield, felt there were some tremendous capabilities within the U.S. with some U.S. companies and U.S. citizens but had some foreign ownership to provide, you know, some very great talent in helping us maintain our ships. We are reviewing those comments at the present time. There are absolutely no intentions to do anything that would move toward crewing the RRF ships with foreign crews. None whatsoever. We are committed to U.S. crews on the U.S.-flag fleet and on the RRF fleet, and that is where we are today. We are reviewing the comments otherwise, and when those are completed, we will inform you, Mr. Chairman, of where we are.

Mr. LIPINSKI. Thank you. Mr. Taylor, do you have any more questions?

Mr. TAYLOR. No.

Mr. LIPINSKI. In conclusion with this panel, I simply want to say that I have had many discussions with Mr. Bowman over here on numerous aspects of his job and the merchant marine in general, and I have found him to be extremely knowledgeable, very articulate, and very patient. And I have appreciated not only his testimony in the open here in formal hearings but also in the conversations I have had with him in my office and also the presentation that he has made to a group that we had that meets almost on a weekly basis of members of this subcommittee, both Republicans and Democrats, trying to build a policy that will revitalize the merchant marine industry. And I want to say publicly that I thank you for all the help that you have been to me personally and to other members of this committee, and I appreciate the ideas and the suggestions that you have made. Thank you very much for your presentation here today also.

Mr. BOWMAN. Thank you, Mr. Chairman. I appreciate that.

Mr. LIPINSKI. Thank you. And we will have our next panel up. Rear Admiral Floyd H. Miller is going to be, I understand, the original spokesman for this—well, I should say spokesperson for this group.

Admiral MILLER. Yes, sir.

Mr. LIPINSKI. We want to be politically correct on this committee if at all possible. But I welcome you, and I welcome your fellow panelists here this morning. You now have the floor to make your presentation.

**STATEMENT OF REAR ADMIRAL FLOYD H. MILLER, USN [RETIRED], PRESIDENT, STATE UNIVERSITY OF NEW YORK MARITIME COLLEGE; ACCOMPANIED BY REAR ADMIRAL DAVID C. BROWN, USMS, SUPERINTENDENT, THE GREAT LAKES MARITIME ACADEMY; DR. WILLIAM E. EVANS, SUPERINTENDENT, TEXAS MARITIME COLLEGE; CAPTAIN GERALD A. CUMMINGS, MAINE MARITIME ACADEMY; REAR ADMIRAL PETER H. CRESSY, USN [RETIRED], PRESIDENT, MASSACHUSETTS MARITIME ACADEMY; DR. MARY E. LYONS, PRESIDENT, CALIFORNIA MARITIME ACADEMY**

### **STATEMENT OF FLOYD MILLER**

Admiral MILLER. Thank you, Mr. Lipinski. As you pointed out, I am Admiral Miller of the New York Maritime College, and I will be speaking on behalf of the state maritime academies' superintendents and presidents. And with me today are Admiral Cressy from Massachusetts, Dr. Lyons from California, Dr. Evans from Texas, and regrettably Governor Curtis can't make it from Maine, but he sent his able assistant, Captain Cummings, and we have Admiral Brown from the Great Lakes region.

We, the prime recruiters and trainers of the maritime industry who train our cadets at minimum Federal expense, have submitted a written statement in regard to the Administration's budget proposal. And with your approval, I would like to summarize it here today.

Mr. LIPINSKI. Go right ahead please.

Admiral MILLER. Thank you, sir.

Mr. LIPINSKI. We will take your entire statement and enter it in the record without objection, and please go ahead with your summary.

Admiral MILLER. Thank you, sir. First, Mr. Chairman, let me express our appreciation to this subcommittee for your support over the past several years. Your efforts and only your efforts are helping us meet stringent Coast Guard safety requirements and the new requirements of the International Maritime Organization Standards of Training, Certification, and Watchkeeping, the Water Resources Development Act, and the Oil Pollution Act of 1990. Our high placement in the diversified fields of the maritime industry clearly indicates that we must be doing something right. We are developing the work force of the future.

We fundamentally support the President's budget. However, we are concerned that OMB, once again, has earmarked for removal language which allows for the proceeds from the disposal of the NDRF ships to be used for facility and ship maintenance, modernization and repair, acquisition of equipment, and training ship fuel which I underscore. This language was provided by the Congress the last two years. We request restoration of this language, and, in addition, request that the proceeds from the NDRF ship disposal be placed in a maritime education trust fund for the Federal and state maritime academies administered by the Maritime Administrator to meet the needs in the future.

This would ensure long-term benefits for our country and would ensure our ability to keep pace with these changing times. What better way than to use these funds for education and training of

our nation's youth aspiring to jobs in the maritime industry and its related fields. We ask for your continued support for marine simulators to meet the new Federal and international requirements and regulations.

Of major concern is the pressing need for fuel assistance so that our training ships can provide adequate sea time for licensing. Congress met this need the last two years by making funds available from funds derived from the disposal of NDRF ships and during Desert Storm by an emergency supplemental that allowed MARAD to offset fuel costs from unspecified funding available in our budget lines—no new money.

As we testified last year, we asked that this fuel language be made a permanent change of the Maritime Education and Training Act. This is allowed by the present Act, but MARAD won't do it without specific language each year. Mr. Chairman, fuel is a critical issue for us. I should add that I was very interested to hear that Mr. Bowman said it costs \$3.4 million to maintain an RRF ship on short notice. I can tell you that our ships, two of which are in the RRF, are maintained for a cost of about 1.2 million on a five-day notice.

A major impact on our ability to educate and train licensed officers is the new user fee for evaluation, examination, and issue of licenses and merchant marine documents. And we are delighted, believe me, that the maritime unions together went to Court on this issue on Monday. In 1990, the Maritime Administration Authorization Act amended Title 13 of the Merchant Marine Act of 1936 to require that our students pass the license as a condition to graduation.

The new user fee has exacerbated that and will now charge them \$424 at the worst financial time in their educational process, graduation, when the average student owes \$15,000 in student loans. It is unconscionable for the Federal Government to set graduation standards for a state educational institution and then turn around and charge the students an exorbitant fee to graduate. This is a graduation fee. The requirements to take the license and to pay the fee should be eliminated. If just the graduation requirement is eliminated, we predict there will be a reduction in students taking the license. Our country doesn't need that. In any one year no more than five students from our academies fail to take the exam, and I would say many of them because they are going in the Navy. This situation must be corrected considering the predicted out-year manpower shortfalls.

In regard to the licenses, our students are being charged a fee by the Federal Government for services the academies, not the Federal Government are providing. We conduct the individual evaluations, and we provide the examination space. Section 2110 of the Title 46 USC allows adjustment of fees for services provided or exceptions if in the public interest. We request that these provisions be invoked to correct this travesty and that these fees be waived or substantially reduced for all state and Federal maritime academy cadets and midshipmen for their original license fees and documents.

We have one other related issue. Last year, Congress authorized a change in the Merchant Marine Reserve Student Incentive Pay-

ments from \$1,200 to \$3,000 per student. However, there was no increase in total authorization. Therefore, the numbers of payments available to incoming students has had to be drastically reduced. In fact, at one time, we were allowed to offer 525 per year. We are down to 125 now. Thus, the input cohort into this program is substantially less. We request an increase in authorization for this program from 1.4 million to 2 million. This would commit more students as per Congressman Taylor's earlier concerns.

Mr. Chairman, the wisdom of this committee has allowed us to continue as one of our nation's most cost-effective investments in education and jobs. We want to continue to be a major contributor to our nation's security and economy. We want to continue to provide young men and women the skills to hold productive professional jobs in our nation's maritime industry. We have appreciated your past support, and we look forward to it in the future. We would be pleased to answer any questions you have at this time.

And in closing and on behalf of our great young American men and women at both the Federal and state maritime academies, I would urge this committee to do all they can to foster a new merchant marine maritime policy and go after Title 11 and cargo preference. We need them all. Our nation's youth is ready to serve and work in the industry. Thank you very much.

[Statement of Admiral Miller may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much, Admiral Miller. We appreciate your comments, and I particularly appreciate when people come here and tell us exactly when they disagree with things. I think it is helpful to the overall process. Mr. Taylor, do you have any questions?

Mr. TAYLOR. No, Mr. Chairman.

Mr. LIPINSKI. Mr. Stupak, do you have any questions?

Mr. STUPAK. Yes, Mr. Chairman, I do.

Mr. LIPINSKI. The floor is yours.

Mr. STUPAK. Thank you. Mr. Chairman, I had a statement I was going to say about Admiral Brown who is the head of the Great Lakes Maritime Academy as Superintendent there, but for brevity, I would just like to introduce that and make it part of the record, if I may.

Mr. LIPINSKI. Without objection, so ordered.

[Statement of Mr. Stupak follows:]

#### STATEMENT OF HON. BART STUPAK, A U.S. REPRESENTATIVE FROM MICHIGAN

Thank you, Mr. Chairman, for the opportunity to say a few words of introduction regarding this particular panel of witnesses. I would like to single out one member of the panel from my district, if I may. That is Rear Admiral David C. Brown who is the Superintendent of the Great Lakes Maritime Academy.

Admiral Brown, let me welcome you to Washington and to the Committee this morning. We appreciate the fact that you and the other members of the panel could be here today to present your testimony.

Mr. Chairman, Admiral Brown has had a distinguished career first with the United States Navy and now with the United States Maritime Service. Admiral Brown is a 1962 graduate of the United States Maritime Academy and has had various sea and land based assignments since graduation, including the command of a squadron of "Swift" class fast patrol boats in Vietnam, as well as assignment as a professor of maritime strategy and policy at the Naval War College, an accredited masters-level program in National Security and Strategic Studies.

Admiral Brown holds a B.S. degree in marine engineering from the U.S. Naval Academy, an M.S. degree in government and public policy from Southern Illinois

University, and an M.S. degree in management from Salve Regina University. He was appointed Rear Admiral in the U.S. Maritime Service by the Maritime Administrator upon assuming the position of Great Lakes Maritime Academy Superintendent.

Admiral Brown, as well as the other Presidents and Superintendents of the state maritime academies, welcome to the hearing this morning.

Mr. STUPAK. With that though, I do have a couple of questions for Admiral Brown.

Mr. LIPINSKI. The Chair recognizes you.

Mr. STUPAK. Thank you. Admiral Brown, you have the Great Lakes academy which is the only freshwater maritime academy. Are you providing any type of special training, and, if so, do your graduates earn the same qualifications as their counterparts in the other academies?

Admiral BROWN. Essentially, yes, sir. Our particular niche is providing the mates and engineers for the Great Lakes shipping industry. The licensing and the skills which they receive are essentially the same as those from their counterpart academies on the coasts with two exceptions. Our deck graduates receive a third mate ocean near-coastal license as opposed to unlimited or open ocean. That is only because their sea time has been accumulated on the Great Lakes, not out on the open ocean, and they can, and some have, upgraded that to an unlimited or open ocean license as third mate. Our engineers receive precisely the same licenses as their counterparts at the other schools—third assistant engineer for diesel or steam vessels of any horsepower.

Our deck graduates, however, receive one additional qualification or license which I suggest might even be the toughest of the three, and that is Great Lakes mate and first class pilot. They have to obtain pilotage for the St. Mary's River, St. Clair River, Detroit River, and all five Great Lakes which requires, respectively, 12 round trips in each of the rivers and three round trips in each of the Lakes, plus passing a very comprehensive exam which lasts about a week for the pilotage alone. That qualifies them as pilots and meets the requirement for their job skills, from day one, to be shiphandlers and pilots in the pursuit of their profession.

Mr. STUPAK. On this additional license, if you will, where they are on the sea, in the Great Lakes, and the seaway—the St. Lawrence and St. Mary's—do you have a training vessel then for this purpose?

Admiral BROWN. No. We have what I characterize as a mixed blessing. Unlike my colleagues, I do not have to come before you asking for fuel money or to come to MARAD asking for funds to maintain a large training ship. That service is effectively provided by the Great Lakes shipping industry. Our cadets receive their 240 to 270 days sea time on Great Lakes freighters which to me is the ideal training because those are the ships that 95 percent of them will be serving as licensed officers and they are getting experience in the trade that they will practice when they are graduated and licensed.

I characterize that as a mixed blessing because a training ship, when it is not out at sea, when it is at pierside at your school, also functions as dockside laboratories and classrooms and can perform other services which, of course, I don't have.

Mr. STUPAK. Are there any ships available or any kind of vessel that you have identified which may assist you in your classroom or your seaside laboratories?

Admiral BROWN. We have been made aware of the possibility that the Navy, in its current downsizing, may be declaring in excess some yard patrol training craft or YP's. I have had a great deal of experience with these craft, going back to midshipman days, having myself been trained on them, to using them as Director of Officer Candidate School in the Navy and Director for Training in Rhode Island to train officer candidates. A YP would be an ideal training vessel for me. They are small, 85 to 108 feet, relatively easily maintained, not too costly to operate and one would fill a gap that I presently have in shiphandling training. It would permit me to get cadets out on the water overnight in a watchstanding regimen which the two small vessels I have currently don't provide. So I would be very, very pleased if one of these is available, and MARAD, in fact, has expressed a willingness to help us acquire one should the Navy make one available.

Mr. STUPAK. Admiral Miller, if I may, you predicted a shortfall in seamen and women in the future. Can you explain that?

Admiral MILLER. Yes, sir. Worldwide there is a predicted shortfall. In fact, the predicted shortfall was about 4,000 by the time we reach the year 2000, and that prediction isn't from me, it is from MARAD.

Mr. STUPAK. 4,000 by 2000?

Admiral MILLER. Yes, by the year 2000 worldwide.

Mr. STUPAK. Thank you. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you. Could each of you please state for the record the number of students who graduated in 1992 from your academy with Coast Guard licenses?

Admiral MILLER. Mr. Lipinski, I have that in the aggregate. If I could answer that for everybody—

Mr. LIPINSKI. Go right ahead.

Admiral MILLER. Last year we had 491 graduates from the state schools and less than five did not take their licenses. As I mentioned earlier, several of them just went in the Navy. They didn't need a license.

Mr. LIPINSKI. Do you have anything though in your testimony or could you submit to us how many from each one of the academies?

Admiral MILLER. Yes, sir. I certainly can.

Mr. LIPINSKI. OK.

Ms. LYONS. Mr. Chairman, just for the record if you don't mind—Mary Lyons from California—

Mr. LIPINSKI. Go right ahead.

Ms. LYONS [continuing]. all of us have programs that include licensing, but there are some of the schools that do have some undergraduate programs that are run parallel concurrent with the licensing program. Now, I think that is why the statistics in terms of total enrollment and those who take the license are sometimes different from school to school. In the case of California, we have a requirement that every student who enrolls must be in the licensing program and as a condition of graduation must pass the Coast Guard license examination. So there is a merge there, but that is

not necessarily the case for each of the schools although by far the majority in most of the state schools are in that program.

Admiral MILLER. Everyone in New York must be in a license program as well.

Mr. LIPINSKI. I appreciate that additional information.

Admiral MILLER. I will put something together for you, Mr. Lipinski.

Mr. LIPINSKI. Yes. I would like to have that if we could—if you could answer that in detail. And I would like to know what is the Federal share of each of the academies total operating budgets?

Admiral MILLER. I can tell you for New York, and it is basically the same for all of us, and we will put that together for you as well, but for New York the student puts in 37 percent, the state puts in 47 percent, and the Federal Government puts in 16 percent. For New York, the cost to the Federal Government to graduate an individual in four years is about \$13,000—this is the Federal Government—has to pay \$12,973. For that, they get a licensed officer.

Mr. LIPINSKI. Could each of you comment on the percentage of 1992 graduates from your academy who are working in maritime-related jobs?

Admiral MILLER. I, again, have that figure in the aggregate from all of them because I put the stats together, but the total, if you look at it, 90 percent went into maritime-related jobs, 58 percent afloat, 22 percent in the maritime industry ashore—and the maritime industry ashore is a big industry as well as afloat—nonmaritime 8 percent, and a large number of them went into power plants which are very similar and allied to the maritime industry. In fact, the Coast Guard gives you credit for it. Ten percent in the military, and then other two percent—some of the two percent may be at sea, and we have been unable to contact them, but mostly they go on to graduate school. So the total number for all of us that we put to sea or in a maritime-related field or in the Service is 90 percent.

Mr. LIPINSKI. All right. Would you submit to the committee the breakdown for each individual academy?

Admiral MILLER. Yes, sir, I will.

Mr. LIPINSKI. Admiral Cressy, I have a couple of questions here that the Chairman of our full committee, Mr. Studds, has requested me to ask you. Your school has taken the initiative to establish the Center for Maritime Environmental Protection and Safety. Could you please elaborate on this program?

Admiral CRESSY. Thank you.

Mr. LIPINSKI. Let me just jump in though and say don't elaborate too long but—

Admiral CRESSY. I won't, sir. I have got a short statement to go in, but we did kick it off, Mr. Chairman, with the committee's help last year. It has been extremely successful. We have a full-blown simulator in place which is now actually being used by industry. ABS is there this week training on it. I think it is important to raise the issue because we know how complex training under OPA 90 is going to be. The Coast Guard is presently conducting hearings to determine that training, and I think the Nation needs to look no further than the maritime academies as a whole as an excellent place to get that kind of training. It fits very well with our mission. Mr. Studds and I have discussed previously the possibility about



having major centers on the East Coast, the Gulf Coast, and the West Coast. And I think we should go forward very vigorously and use the academies in this regard, sir.

Mr. LIPINSKI. Gee. If you had one in the Midwest someplace around the Great Lakes, there would probably be a couple of members of this committee who would be very enthusiastically supporting that.

Admiral CRESSY. That is a heck of a good idea, Mr. Chairman. I am glad you raised it, sir.

Mr. LIPINSKI. Thank you. Also, a question for you. Recently, Mass maritime was successful in placing its graduates on foreign-flag vessels. Is there a market for U.S. mariners on foreign-flag vessels?

Admiral CRESSY. That is a very complex question, Mr. Chairman, but I think it is terribly important. As Admiral Miller said, we have already identified at least a shortfall worldwide of 4,000 officers by the year 2000. IMO actually says that the shortfall will be 20,000, sir. These are jobs waiting and ready for young American people to take, and while we wait for the reform Act to come in, which we desperately need, and while we wait for the opportunity to rebuild the American-flag ship, I think it would be terribly unfortunate for us to lose that experience base which is going away at the middle level and the upper levels.

A program we started is with Mobile, an American company, that wishes to have American officers grow up in the industry so that they will be available for management later. I think it is a critical opportunity for our people to get this training even while our own flag fleet has gotten entirely too small. I hope that the committee will do whatever it can to keep pressure on American companies that use foreign-flag ships to hire a certain percentage of our highly skilled, environmentally sensitive officers, sir.

Mr. LIPINSKI. Thank you. Is there any other member of the panel that wishes to make any comment, any suggestion, any idea? Dr. Lyons.

Ms. LYONS. Thank you, Mr. Chairman. One of the things that I believe has been suggested, but not made explicit in our testimony, is the fact that we are finding it increasingly difficult to find the Federal resources to ensure that our students have sufficient at-sea training experiences. Some have a need for finding berths for their students for either commercial experiences or, in our case, commercial shiftings. Sufficient fuel to keep our training ships going is problematic, or in my case, having a training ship that is adequate for our needs. Our students want to go to sea. Their willingness to go on a foreign ship even as mates or engineers at less salary than they would get on a U.S.-flag ship speaks to that. These are men and women who pay for their education because they want to go to sea more than they want anything else, even aside from the pay. That is what draws them.

But we find ourselves caught in a squeeze. For example, my ship which is 53 years old is older than the museum ship that sits across in San Francisco Bay where people pay a fee to visit. The state governments, as you know, don't feel that it is a high priority to put any money into a Federal vessel. These ships, of course, are

owned by MARAD, and so we can't look to our states for that support.

The Maritime Administration keeps our ships maintained—but is not in a position to funnel funds from their own budget into acquiring ships. But we have, as you see in the budget, millions and millions of dollars going into acquire RRF ships that sit as icons basically awaiting the need, when a few million dollars put into keeping our own training ships up and ready and state-of-the-art would make sure that there are crews that are ready to step onto those RRF ships should the need arise. There seems to be a tremendous imbalance, from my point of view, in the way these moneys are being put into a priority. Hundreds of millions of dollars are spent on vessels that are sitting, and very little money is going into the few vessels that are actively supporting the training of the mariners that will one day man and crew those RRF vessels.

Ms. LIPINSKI. Thank you very much for those comments. Is there any other member of the panel that wants to speak—yes, sir.

Mr. EVANS. Thank you very much, Mr. Chairman. I just wanted to add comments to what Dr. Lyons had said from the standpoint of Texas and also Maine, which are in essentially in the same situation, in terms of having the resources to be able to bring modern technology into our students. We have ships that are museum pieces. When I go to sea with the Texas Clipper, I am getting a little tired of having ships that go by hail us as the classic ship in their port. I would like to get into something where the students are going to be able to train a little bit more. We are in that process right now—we have all had ships designated for us. There is a ship that has been designated for California. There is one that has been designated for Maine and one for Texas (and we are in the process), but we still are having problems with the funding for converting those ships so that they will be useful for our students. It is what Mary said, a very high priority for three of the five deep water schools that are sitting here. Thank you, sir.

Mr. LIPINSKI. Thank you. Do we have any further questions for this panel? Go ahead.

Mr. STUPAK. Mr. Lipinski, along those lines if I may ask the panel, you know, you train one of two ways, either out on the ships or else with your simulators. Correct?

Admiral MILLER. Correct. We are all just getting simulators. Some have more than others.

Mr. STUPAK. I was just going to ask does everyone have simulators?

Ms. LYONS. No, sir. And, in fact, few of us have any full-mission bridge simulators, and most of those that do are really aimed at providing a service to professional mariners. The software is very sophisticated, and what we are trying to do is give our mates and engineers the real basic at-sea training they need for their entry-level license, and that plus the Coast Guard requirement for at-sea training really puts the priority on working on the vessel itself.

Now, were we to be funded more and we could have those full-mission bridge simulators, we would be able to provide a tremendous service to our students as well as to the entire maritime industry. I think that was what, you know, Admiral Cressy was alluding to earlier.

Mr. STUPAK. Has enrollment or interest in the maritime academies enrollment—has it gone down in recent years? Up? Stable?

Ms. LYONS. No, sir.

Mr. STUPAK. Gone up?

Ms. LYONS. Quite a bit. We have more than we can take—I mean, more applications than we can take.

Admiral MILLER. I can't fill any more beds at the school.

Ms. LYONS. We are full.

Mr. LIPINSKI. Mr. Taylor, do you have a question?

Mr. TAYLOR. Just a request.

Mr. LIPINSKI. Go right ahead.

Mr. TAYLOR. Gentlemen, we hope in the next couple of months to have and to work through the Armed Services Committee through the Defense appropriation to expand the Title 11 program to go after the double-hull market that will be available because of the Oil Pollution Act of 1990. We think the Department of Defense is the most logical place because we are expanding our nation's—trying to maintain our nation's industrial base. We are asking for your help. We think it is important. We are asking that you get in touch with the alumni associations. I see where many of you are ex-military—your peers who are still active duty and those who have retired.

I think it is important to the nation, and, quite frankly, I haven't seen any comprehensive plan in the three years that I have been here that would have addressed it. We have among those of us who serve on both committees pretty strong feelings toward this, but, obviously, it is going to take more than eight or ten Congressmen to get this passed, and then it has still got to go to the Senate. So we are asking for your help. We certainly want to make those of us who are working on this—ourselves available to you should you need any convincing, but I don't think you need any convincing since you are graduating young people every year who, as Admiral Cressy very well pointed out, need a place to go to work.

Admiral MILLER. If I could just make a statement. I totally agree with you, Mr. Taylor, and we deeply appreciate your support. But this Saturday I will be talking to the National Council of State and Federal Maritime Academy Alumni Associations, and there is such an association. It is a very active organization. At one time, they used to come to these hearings and at least present a paper. They haven't done so in several years, but the president is Rear Admiral Warren Hamm who graduated from Maine Maritime in 1949. He is a close personal friend of mine, but he has really put the fire under the National Council of Maritime Academy Alumni Associations, and that is a great way to start. I think a lot of us also have parent associations, and when you look at everybody that you can get your arms around, there are a lot of people we can put pressure on, and I can assure you we will.

Mr. TAYLOR. Thank you very much.

Mr. LIPINSKI. Thank you, Mr. Taylor. Is there any final comment from any member of this panel? I thank you very much for your appearance here today. We will certainly try to aid and assist you in your endeavors, and this hearing is officially closed.

[Whereupon, at 12:08 p.m., the subcommittee was adjourned; and the following was submitted for the record:]

STATEMENT OF THE  
PRESIDENTS/SUPERINTENDENTS OF THE  
STATE MARITIME ACADEMIES/COLLEGES OF  
CALIFORNIA, MAINE, MASSACHUSETTS,  
NEW YORK, TEXAS AND THE GREAT LAKES REGION  
  
BEFORE THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON MERCHANT MARINE AND FISHERIES  
  
SUBCOMMITTEE ON MERCHANT MARINE

21 APRIL 1993

We, the Presidents and Superintendents of the State Maritime Academies/Colleges of California, Maine, Massachusetts, New York, Texas, and The Great Lakes Region, appreciate the opportunity to present our comments on the Department of Transportation Maritime Administration's (MarAd) proposed budget for maritime education and training.

The State Maritime Academy System is a cost effective investment in education, jobs, and our Nation's waterborne commerce. We are the prime recruiters, trainers, and educators for the Maritime Industry. In addition, we provide continuing education, i.e., worker training for all segments of the industry.

As contained in the Maritime Education and Training Act of 1980 and its predecessor Acts, our Nation's State Maritime Academies, with minimum Federal assistance, provide education and training for jobs afloat and ashore in the Maritime Industry. Under this system the Federal Government joins with the States and students in sharing costs.

We provide licensed officers for the deep sea fleet, the inland waterways, Great Lakes, tug and barge, coastal and off-shore supply. Ashore our graduates work in every facet of the industry ranging from ship design to shipbuilding and repair to marine insurance, brokering, chartering, freight forwarding, Port Authorities, intermodal and container operations, admiralty law, environmental protection, oil spill response and on and on. We have expanded our curriculums to include the marine environment, oil spill response, etc. The opportunities for jobs are vast and diversified! We are developing the work force of the future.

The State Maritime Academies, even during these recessionary times, have provided America's young men and women a first class education with over 90% job placement a few months after graduation. Our cost-effective method of training is vital to ensure that our Cadets meet the stringent requirements of Coast Guard safety regulations, The Oil Pollution Act of 1990, International Maritime Organization Standards of Training, Certification and Watchkeeping, the Water Resources Development Act of 1990, and the National Transportation Policy during a time of great environmental sensitivity. Your support has further allowed the State Maritime Academies to adjust to changing times and to initiate new courses of study providing a trained manpower pool which fills jobs in growth areas of the maritime industry such as environmental training, contingency planning, maritime management and marine medicine. In an era when jobs are critical, your support has been an investment in people, employment and income. It is a commitment to opportunity, an investment in tomorrow.

We fundamentally support the President's budget. We are particularly pleased that again this year the budget contains \$1.2 million funding for marine simulators. Simulators allow us to take maximum advantage of technology. They improve our way of learning. Clearly other maritime nations understand this as they are already ahead of us in this regard.

We are, however, concerned that the Office of Management and Budget has earmarked for removal the language which allows for the funding for facility and ship maintenance, modernization and repair, acquisition of equipment and fuel costs from the proceeds of the disposal of NDRF ships. Following on from the language provided by the Congress the last two years, we believe the use of funds developed from the disposal of NDRF ships should be placed in a Maritime Education Trust Fund. Such a Fund would be good for America and our maritime industry for years to come. We strongly recommend that this committee, as a continued investment in America's security and the Maritime Industry, restore the language bracketed for removal and also consider language that

commits the funds generated from the disposal of NDRF ships to a trust fund to support the special needs of the State and Federal Maritime Academies. An Education Trust Fund would ensure long-term benefits for the country, and would ensure our ability to keep pace with these changing times. What better way is there to use these funds than for the education and training of our Nation's youth aspiring to jobs in the maritime industry?

Our most pressing need is funding assistance for training ship fuel. We collectively require \$1 million in fuel assistance each year. Lack of fuel funding assistance will impact on our ability to graduate the majority of our Nation's licensed officers. Although Section 1304(c)(2) of the 1980 Federal Maritime Education and Training Act authorizes MarAd to provide fuel funding, it has taken special language on an annual basis for MarAd to do so.

Congress met this need the last two years by making funds available that were derived from the sale of obsolete vessels in the National Defense Reserve Fleet (NDRF) and during Desert Storm by adding an Emergency Supplemental that allowed the Maritime Administration to offset fuel costs from unspecified funding available in our budget lines. We ask that this language be continued as a permanent change to the Maritime Education and Training Act of 1980 Public Law 96-453 as amended.

We want to express our concern in regard to the 1990 Maritime Administration Authorization Act which amended Title XIII of the Merchant Marine Act of 1936, to require that as a condition for any school to receive any Federal payment or use of any Government vessel, the schools agree in writing to require as a condition for graduation that graduates pass the U.S. Coast Guard licensing examination. This runs totally counter to State's Rights guarantees and the operation of academic institutions throughout our Nation.

The U.S. Coast Guard requires successful completion of our curricula and sea time to sit for the Merchant Marine Officer's license. On the other hand, all academic institutions require successful completion of courses and training to receive a diploma. There is no guarantee that completion of our curricula will guarantee a license just as there is no guarantee that receipt of a diploma from law school will guarantee passing of the bar exam or a diploma from medical school will ensure licensing of a doctor. There is no question other colleges and universities receiving Federal aid are not tied to similar requirements. In reality, less than five graduates each year do not take and pass the license exam. This new requirement will not increase the number of mariners that graduate; in fact, along with the proposed license fees noted below, quite the opposite will likely occur. The impact will be on recruiting at a time when the predicted mariner shortfalls are coming true and the available pool of qualified high school graduates is at an all-time low.

We are also very concerned about the impact of the recent rulemaking for USER FEES FOR MARINE LICENSING, CERTIFICATION OF REGISTRY AND MERCHANT MARINER DOCUMENTATION. We strongly oppose such fees as pertains to our Cadets in obtaining entry-level licenses, merchant mariner documents including lifeboatman as well as other required endorsements. These fees will be detrimental to and severely reduce our input of entry-level officers to our Nation's Merchant Marine.

Section 2110, Title 46 USC, as amended by The Omnibus Tax Reconciliation Act of 1990 (the source of this U.S. Coast Guard action) allows "adjustment of fees to accommodate changes in the cost of providing the services" associated with mariner documentation and licensing. The rulemaking states that the

Coast Guard will "revise these proposed fees when costs change due to ... the way services are provided." (Emphasis added)

On this basis, it should be noted that the administrative costs to the Coast Guard of qualifying and testing State Academy Cadets are greatly reduced through the work done by the Academy staffs - we prepare all documentation in support of both the Cadet Merchant Mariner Documents and the License Applications, and we provide suitable rooms to administer the examinations to large groups of Cadets - all of which are clearly less costly to the Coast Guard than examining individuals or small groups at the Regional Examining Centers.

Finally, Section 2110 also allows exemption of certain persons from fees "if in the public interest." We submit that it is in the public interest to waive or reduce this fee for Cadets to ensure a healthy input of young men and women into our Nation's Merchant Marine, an industry which is required for our national commerce and security.

We strongly believe that it is unconscionable on one hand for the Federal Government to mandate to young men and women attending State educational institutions who pay for an education which clearly supports our national security to take and pass a license examination and then, on the other hand, charge them an exorbitant fee - \$424 - to take it. In essence, the user fee is a graduation fee which is exorbitant in relation to an entry-level Cadet's income history. Once licensed our graduates are capable of paying a user fee to upgrade or renew their licenses.

This is one more Federal fee or regulation that impacts on our Nation's attempts to maintain a competitive Merchant Marine.

We strongly recommend that the user fees be waived or inverted for all State and Federal Maritime Academy Cadets and Midshipmen for their original/entry-level license and/or documents. By inverting the fee, officers upgrading or renewing their license would pay more, thus, making up the differential created by lowering the fee for entry-level licenses.

So that our Nation's Merchant Marine can be responsive in times of national emergency, we strongly support House Bill HR 1109 which amends the Merchant Marine Act of 1936 to establish reemployment rights for certain merchant seamen.

During Desert Shield/Desert Storm, the Maritime Academies put strong pressure on their graduates to man the Ready Reserve Force (and other ships). Universally we heard, "I'll lose my job if I leave." As borne out in Desert Shield/Desert Storm, lack of reemployment rights is a major impediment to manning our merchant ships in a national emergency. It is in our best national interests to provide reemployment rights as this issue directly affects the lives of our service personnel. As a bare minimum we need to be able to man Sealift requirements if the call goes out.

Last year, in order to correct and improve the Student Incentive Payment (SIP) Program and to increase the numbers of students volunteering for it, the Congress authorized an increase in individual SIP payments from \$1,200 per year to \$3,000. In addition, payment of SIP was authorized to begin during the student's freshman year. No increase in the total funding for this program was authorized or appropriated.

These changes were primarily programmed to improve recruiting for the program which in worst case recruited an annual total of 83 for 575 available positions. This year with the increased individual payments only 125 volunteers can be accepted from all the State Maritime Academies. An increase of \$600,000 for a total program funding of \$2 million is requested to permit more students to sign up.

Under the 1980 Federal Maritime Education and Training Act, the Federal Government provides funding to the State Maritime Academies for:

1. A training ship plus ship's maintenance/repair and fuel money when authorized (Great Lakes excluded) to allow our Cadets to meet the Federally mandated "sea time" license requirements.

2. \$100 thousand per school for administration of a State Nautical School and up to \$200 thousand for regional schools, i.e., Great Lakes.

3. Student Incentive Payments (\$300/month) for students accepting commissions in the U.S. Naval Reserve/Merchant Marine Reserve.

In terms of Federal expenditures, the State Maritime Academy system is our Nation's most cost-effective system to produce licensed officers, officers already noted by experience to be in short supply, a supply predicted to become very short in the outyears.

So that we may cost-effectively continue to serve and provide an educated and trained labor pool for our Nation, we request restitution of the language in the President's Budget recommended for deletion by the Office of Management and Budget in addition to the necessary expenses of operation and training activities. We also request:

1. Authorization of a permanent change of language in the Code of Federal Regulations Vol 46 Sub part A 310.4(e)(2)(iv) - the Maritime Education and Training Act - to allow the Maritime Administration to offset training ship fuel costs from unspecified funding available in our budget lines. As a minimum, \$1 million is required.

2. The use of proceeds derived from the sale and disposal of National Defense Reserve Fleet Vessels for facility and ship maintenance, modernization and repair, acquisition of equipment and fuel costs necessary to maintain training at the Federal and State Maritime Academies. We request that these funds be placed in a Maritime Education Trust Fund to be administered by the Maritime Administration.

3. Relief from the new user license fee for students at the State and Federal Maritime Academies and the recent amendment to the Merchant Marine Act of 1936 which requires, as a condition to graduation, that graduates pass the U.S. Coast Guard licensing examination. It is unconscionable for the Federal Government to dictate graduation requirements to a State educational institution, i.e., pass a license examination, and then charge the students a "graduation fee" of \$424 to meet this requirement.

4. An increase in U.S. Naval Reserve/Merchant Marine Reserve Student Incentive payments from \$1.4 million to \$2 million to increase the availability of the program to more students. The change in payments from \$1,200/year to \$3,000/year authorized by the Congress in 1992 without an increase in appropriations, necessarily reduced numbers of payments available to incoming students and, thus, less of an input cohort into the Merchant Marine Reserve.

We appreciate your past support and trust and hope that we may continue to receive it in the future. We want to continue to provide high quality jobs by meeting the requirements of our Nation's Maritime Industry, the recently ratified IMO-STCW standards, the National Transportation Act, the Water Resources Development Act of 1990, and the Oil Pollution Act of 1990. We want to continue to be a cost-effective contributor to our Nation's economy and security. We want to continue to provide



young men and women the skills to hold productive jobs in our Nation's Maritime Industry and thereby contribute to its economy.  
We must continue to provide hope to our students in the near term and at the same time prepare them to meet the needs of tomorrow.

We would be pleased to assist you in any studies you may wish to undertake with regard to the matters we have raised and would be happy to have the opportunity to discuss our situation with you and your staff at your convenience. We trust you will give our requests and our views your favorable consideration.

DEPARTMENT OF TRANSPORTATION  
 STATEMENT OF THE ACTING MARITIME ADMINISTRATOR  
 RICHARD E. BOWMAN  
 BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE  
 OF THE COMMITTEE ON MERCHANT MARINE AND FISHERIES  
 U.S. HOUSE OF REPRESENTATIVES

IN SUPPORT OF THE AUTHORIZATION OF  
 APPROPRIATIONS FOR FISCAL YEAR 1994

APRIL 21, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you to discuss the Maritime Administration's Fiscal Year 1994 budget request. The Maritime Administration is responsible for the promotion of a strong U.S. merchant marine for carriage of domestic and foreign commerce and for national defense purposes. To carry out this broad responsibility we strive to assure: (1) the sustainment of an active fleet of privately-owned and operated commercial vessels; (2) the availability of a sufficient supply of trained and efficient personnel to crew these ships; (3) the efficient maintenance and timely readiness of a Government-owned reserve fleet of cargo vessels which can be activated during national emergencies; and (4) the efficient operation of other maritime-related activities, such as maritime education and training, that further the national interests of the United States.

Current Program

Let me describe our activities to manage the Ready Reserve Force (RRF) under the funding provided for FY 1993. With a total of \$280,896,000 for maintenance and operations, appropriated funds and carryover from previous years, we have initiated the enhanced maintenance program. Many of the vessels which would deploy first in the event of an emergency are being maintained in reduced operating status, which enables us to activate them in four days (ROS-4). Further, all vessels which are to be activated in 5 days have been outported to locations closer to anticipated load points. An expanded sea trial program has also been implemented to ensure that the ships are maintained in an adequate level of readiness.

In addition, using the monies provided for fleet additions, as well as funds carried forward from previous years for a total of \$334,140,000, the Maritime Administration purchased 12 additional Roll-On/Roll-Off (RO/RO) vessels for the RRF this year. All 12 ships are expected to be in the fleet by December 1993, after having completed repairs, regulatory upgrades, and reflagging work (if necessary) at U.S. shipyards. Acquisition of these RO/ROs is a significant step toward accomplishing the DOD goals addressed in the MRS of 36 RO/ROs in the RRF by 1996, as well as a total of 140 ships in the RRF by 1999.

FY 1994 Overview

The need for maritime reform has never been more evident. The size of the active privately-owned merchant fleet has declined to such an extent that U.S.-flag liner ships carry less than 20 percent of the Nation's international liner cargo trade. Ten years ago, the liner fleet transported approximately 30 percent of our dry cargo. Further, today U.S.-flag bulk ships continue to transport only two percent of this country's oil and dry bulk imports and exports, about the same percentage as they did ten

years ago. In total, the U.S.-flag fleet carries less than five percent on a tonnage basis, of our international trade. While there are no easy solutions to remedy the progressive decline of our merchant fleet, the Secretary of Transportation has made maritime revitalization one of his highest priorities and has initiated policy discussions within the Administration.

The funds requested in the FY 1994 budget will provide for the payment of existing long-term contracts for Operating-Differential Subsidies, will maintain the agency's operations and training programs, and will provide support for the Ready Reserve Force (RRF) to meet Department of Defense requirements.

#### REQUEST FOR APPROPRIATIONS Operating-Differential Subsidies (ODS)

An appropriation to liquidate contract authority of \$240,870,000 is requested, a net increase of \$15,870,000, as no carry over of FY 1993 funds is anticipated. This will pay for an estimated subsidy program of 54 liner and 29 bulk ships, a decrease of three bulk ships from FY 1993. The program is designed to offset the higher total costs associated with operating U.S.-flag vessels versus lower cost foreign-flag vessels.

#### Operations and Training (O&T)

An appropriation of \$80,081,000 is requested which is an increase of \$8,345,000 over the FY 1993 appropriation. The requested increase consists of \$708,000 for unavoidable cost increases, such as annualization of 1993 pay raises and inflation, \$700,000 for continuing the replacement of U.S. Merchant Marine Academy heating system, and \$6,937,000 for the National Defense Reserve Fleet which was funded by the RRF appropriation in FY 1993.

#### Ready Reserve Force (RRF)

An appropriation of \$300,000,000 is requested for this account, a decrease of \$140,500,000 from FY 1993. The request includes \$160,000,000 for Fleet Additions, \$136,000,000 for Maintenance and Operations, and \$4,000,000 for Facilities. This level supports a partial enhanced maintenance program for the ships currently in the RRF and allows continued progress toward achieving the long-term DOD objective of 140 ships in the fleet in 1999.

The requested funding for maintenance and operations supports placing some high priority ships in ROS status; sea trials will be conducted for laid up ships on a less frequent basis than originally called for in the MRS. The Maritime Administration is working with DOD to manage the program to maximize readiness levels within proposed resources.

The funding for Fleet Additions provides for the acquisition of four more RO/ROs, bringing the total number of ships in the RRF to 113 by the end of 1994.

#### Summary

In summary, we are requesting for 1994 an appropriation to liquidate contract authority of \$240,870,000 for Operating-Differential Subsidies; \$80,081,000 for Operations and Training; and \$300,000,000 for the Ready Reserve Force.

This concludes my prepared statement and I will be pleased to answer any questions that you may have.

STATEMENT OF  
HONORABLE WILLIAM D. HATHAWAY  
CHAIRMAN, FEDERAL MARITIME COMMISSION  
BEFORE THE  
COMMITTEE ON MERCHANT MARINE AND FISHERIES  
SUBCOMMITTEE ON MERCHANT MARINE  
UNITED STATES HOUSE OF REPRESENTATIVES  
APRIL 21, 1993

Mr. Chairman and members of the Subcommittee --

It is a pleasure to appear before you to discuss the authorization for the Federal Maritime Commission for fiscal year 1994.

With me today are Robert D. Bourgoin, the Commission's General Counsel, and Edward P. Walsh, our Managing Director. I would also like to note the presence of my two fellow Commissioners -- Francis J. Ivancie and Ming C. Hsu.

I see the primary role of the Commission to be to effectively and efficiently implement the statutes enacted by Congress in a fair, evenhanded manner. To this end, we are requesting an authorization of \$19,450,000 for fiscal year 1994. This is \$410,000 less than included in the President's budget, but, as explained below, we intend to borrow this amount from Treasury under the authority of P.L. 102-582.

This request is an increase of \$1,150,000, or 6.3 percent, over our fiscal year 1993 appropriation. Roughly 91.3 percent of the increase is composed of mandatory expenditures of a nondiscretionary nature: \$431,000 for the annualization of fiscal year 1993 withingrades, promotions and general pay increases; \$98,000 for GSA-mandated rent increases; an estimated \$379,000 in expenses related to GSA's relocation of the Commission's headquarters; \$49,000 for FERS and other personnel benefits; and \$93,000 for other miscellaneous, nondiscretionary expense items. The balance of the increase is for funding promotions, withingrades, and other administrative expenses.

Our 1994 budget request includes two sets of costs associated with the relocation of the Commission's headquarters offices last August. First is a rent increase of \$84,000, payable to GSA. Second is \$379,000 in relocation expenses that have become our responsibility. Since we were not aware that GSA was planning our relocation when we proposed our fiscal year 1993 budget, we did not include move-related expenses in that budget. Therefore, OMB has advised us to pay the \$379,000 from the \$19,450,000 in fiscal year 1994.

In order to absorb the rent increase, relocation expenses and other costs mentioned above, we will not be able to fund the full complement of our 225 authorized FTEs. The Commission, therefore, must operate another fiscal year at an FTE level below that built into our budget request, even though our authorized FTE level was determined to be fully justified.

I would also like to explain the status of the proposed 1994 funding for ATFI -- our Automated Tariff Filing and Information System. The Commission has concluded many years of planning for the electronic filing, processing, and retrieval of tariffs rates and charges that carriers are required by law to file with us. I am pleased to say that in February of this year we began actual implementation of the system. Our present schedule provides for carriers and terminal operators in all trades to convert their tariffs and file them into the automated system by the end of this calendar year -- an ambitious undertaking involving the conversion of well over a million pages of today's paper tariffs.

In fiscal year 1994, ATFI will require \$1.81 million, or \$410,000 more than in fiscal year 1993. This increase is necessary to pay for needed ATFI items, such as hardware and software upgrades and increased contractor labor costs to support the projected workload when all tariffs are on line and to accommodate projected database growth, which could not be ordered or fully paid for in fiscal years 1992 or 1993 due to budget constraints. These items must be funded in fiscal year 1994 in order to have the ATFI system, implemented according to the schedule published in the Federal Register.

However, the \$410,000 in increased ATFI costs is not included in our fiscal year 1994 budget request. During the passback appeal process, OMB did not fund the \$410,000 increase requested for ATFI, and suggested instead that we borrow the funds from the U.S. Treasury under the authority provided by Public Law 102-582, or absorb the increase. Because absorbing the \$410,000 would require the Commission to make significant FTE cuts, jeopardizing the viability of the agency, we now intend to borrow these funds from the Treasury. This will require repayment with interest. Our budget is constructed on the assumption that we can borrow these funds and pay them back by fiscal year 1995.

I would now like to discuss some of our more recent activities and future initiatives.

### **AUTOMATED TARIFF FILING**

As indicated above, we anticipate that all ocean freight tariffs in the foreign and domestic offshore commerce will have been electronically filed into ATFI by the end of calendar year 1993. These electronically-filed tariffs are replacing the paper tariffs that have been and are now being filed and maintained in binders available for inspection only at the Commission's Washington, D.C. headquarters.

Since August of 1989, when the major ATFI contract was awarded, paper filings have averaged almost one million pages a year. During the same period, however, the ATFI contractor has completed several phases, including validation of requirements, design, development, and prototype operations, in which the industry has had extensive opportunity to participate. On February 22, 1993, we began the final phase, the production phase. The number of official filings already submitted in this phase have been encouraging, although many filers appear to be waiting until the last minute.

Equally as important as the contractual development of ATFI are the Commission's related regulatory and outreach programs. In response to a Notice of Inquiry, four Commission reports addressing various implementation aspects of ATFI have been issued, with public comments invited at every stage. The last such report was issued in October 1991.

We have also engaged in several rulemaking proceedings concerning filing of tariffs and service contracts under ATFI. Again, the rulemaking phase has resulted in intensive public comment.

The Commission has also conducted demonstrations and training for the public. Questions have been fielded on the contractor's Hotline and by several offices within the Commission. Over 30 Information Bulletins and similar releases to the public have been issued. The Commission continues to welcome public participation in the operation of the ATFI system.

Unfortunately, the manner in which the industry and the system work would not fully accommodate the proposed schedule set forth in P.L. 102-582, which provides for tariff filing last July. In fact, our original filing-implementation schedule was issued before the Public Law was signed in November 1992. Now that it has been signed, we are attempting to implement it to the fullest extent possible, including the issuance of necessary regulations.

Since the law does not specifically give the Commission authority to issue a final rule without the opportunity for public comment, we issued a notice of proposed rulemaking on February 8, with public comments received in March 1993. We are now preparing to issue a final rule that will address the method of collection of the 46-cents-a-minute user charges, both for direct access to ATFI, as well as for indirect or secondary access of computer database tapes purchased by private-sector firms and made available to others.

### **REVIEW OF RULES AND REGULATIONS**

The Commission continued a comprehensive review of its regulations during fiscal year 1992 to refine, clarify or update existing regulations. We also eliminated certain regulations that were no longer necessary. This effort resulted in numerous changes for the benefit of all segments of the ocean shipping industry.

### **ENFORCEMENT**

The Commission's enforcement effort involves numerous trades and a variety of activities of ocean common carriers, NVOCCs, freight forwarders, shippers, and other shipping industry entities. Our primary objective is to ensure compliance with the Shipping Act of 1984.

In the recent past, the North Atlantic Malpractice Program culminated in a significant settlement with ocean carriers that included substantial monetary sanctions and the institution of a self-policing authority designed to maintain a clean trade in the future. The Commission continues closely to monitor the North Atlantic trades and pursue investigative leads of malpractice activity inasmuch as these trades are among the major U.S./foreign trades, and the trade environment is a matter of continuing concern to the Commission. A Commission Fact Finding Investigation is available to assist these efforts.

The Trans-Pacific Malpractice Program was initiated in 1989. It too relies on field investigations and support from a formal Commission Fact Finding Investigation. The violations of the 1984 Act uncovered by this enforcement effort have resulted in many settlements with shippers, NVOCCs, vessel operating common carriers, and freight forwarders. These settlements were unprecedented in the amounts of penalties that were collected. Active discussions are in progress with the major Trans-Pacific carriers to establish an enhanced self-policing program similar to the one instituted in the North Atlantic.

The Commission will continue to direct its enforcement efforts toward malpractice programs in major trade routes and the development of programs to deter specific unlawful shipping practices. The Commission also will continue its numerous surveillance activities involving service contract audits, passenger vessel audits, freight forwarder compliance checks, NVOCC tariff audits and bonding compliance. These activities are designed to improve compliance and provide the Commission with early warning signs regarding emerging practices that may require regulatory action.

The collection and analysis of trade intelligence provides the foundation for programs to uncover and deter increasingly sophisticated and deceptive malpractices. The Commission also seeks to enhance its investigative capability in the increasingly automated environment of the shipping industry by emphasizing the use of automated systems in the conduct of investigations.

I do not believe penalty collections will continue to be as large as in the past few years. This, however, is in part a reflection of the Commission's success in cleaning up our trades and reducing both the practice of and incentive for illegal rebating. Our goal is not enforcement for enforcement's sake, but rather trades that operate in compliance with the Shipping Act of 1984 and that provide a competitive environment in which no one participant is unfairly preferred or disadvantaged.

The Commission will continue to pursue these malpractice programs. We also have commenced preliminary investigations in other trades. These will be combined with ongoing enforcement actions involving malpractices uncovered in our normal investigatory activities.

#### **AGREEMENT MONITORING**

One of the Commission's primary responsibilities is the review of certain agreements among ocean common carriers operating in the United States trades. One of the most significant of these is the Transatlantic Agreement ("TAA"), which was originally filed on April 15, 1992. The original filing was deficient as to form and format and was withdrawn by the parties. A revised version of TAA was then filed.

Subsequently, the parties were informally advised that the Commission was prepared to investigate and seek a court order enjoining certain unacceptable provisions related to service contracts and withdrawal penalties. TAA removed the offending provisions and the Commission took no action to further prevent or delay the agreement from becoming effective. To date, TAA has been modified eight times since it became effective.

TAA permits the parties to discuss and agree upon rates, charges and conditions of service in the trade. It has a tiered membership structure consisting of a rate committee with binding ratemaking authority, and six non-rate committee members. TAA also permits its members to implement a capacity management program ("CMP") in order to reduce the total amount of vessel space available to shippers by as much as 25 percent. Currently, the CMP operates only in the westbound trade, *i.e.*, Europe to the U.S.

The Commission has received over 40 inquiries and complaints from shippers and Congressional members on rate and service contract matters concerning TAA. The Commission's staff has responded to these inquiries and intervened with TAA on behalf of shippers. Some of these shipper issues still remain outstanding. It is our understanding that TAA is still in the process of reviewing these matters. The Commission's staff remains in contact with both shippers and TAA officials.

As of March 26, TAA had negotiated 427 service contracts for the 1993 calendar year, 95 of which were signed with NVOCCs.

#### **TRADE ACTIONS**

Many of our foreign trading partners' governments continue to protect their national-flag merchant marine and other maritime related enterprises through various practices that restrict or discriminate against other countries' carriers, including U.S.-flag carriers, participating or seeking to participate in their trades. One of the Commission's priorities is to investigate and seek an end to discriminatory trade practices that disadvantage our U.S. merchant marine and American importers and exporters. The Commission has the authority to deal with these restrictions under section 19(1)(b) of the Merchant Marine Act of 1920, and the Foreign Shipping Practices Act of 1988 ("FSPA"). If the Commission finds that the laws or policies of foreign governments or the practices of foreign carriers create unfavorable or adverse shipping conditions in U.S. trades, the Commission may take countervailing actions to correct such conditions.

The Commission recently has focused on the policies of certain Far East nations that restrict the ability of U.S.-flag and other non-national-flag carriers to conduct shipping and ancillary maritime activities, and on the application of cargo reservation policies implemented by a Latin American nation in U.S. trades. Cargo reservation policies tend

to restrict third-flag carrier access to these trades, thereby preventing American importers and exporters from employing their preferred carrier. I would like to review the Commission's activities in each of these areas.

#### **Japan**

In April 1991, the Commission issued a notice and order of investigation under the FSPA ("April Order") of shipping conditions in the United States-Japan trade. The subject of the April Order was a fund known as the Harbor Management Fund ("HMF") which was originally established by the Japan Harbor Transportation Association ("JHTA"). The Order alleged that the JHTA levied charges against U.S. and other carriers serving ports in Japan that were paid into the HMF; that the fund was used to promote and finance projects, principally import distribution centers, from which U.S. carriers derived no benefit; and that U.S. carriers were thereby adversely affected by the HMF.

The proceeding was discontinued in June 1991, based on the U.S. carriers' representations that, because of the FMC actions, a new agreement had been reached with the JHTA, along with a commitment by the Japanese Minister of Transport that the HMF would be discontinued after March 31, 1992. This assessment has been discontinued and its discriminatory impact on U.S. carriers eliminated. The Commission will continue to receive filed reports on allocations or expenditures of HMF by the carriers until no longer needed.

We also continue to monitor other maritime trade practices in Japan, including some labor related matters. Currently, maritime labor discussions are under way and we are awaiting reports on the outcome so that we can make our procedural evaluations.

#### **Taiwan**

In 1989 and 1991 the Commission undertook investigations under the FSPA into various restrictions imposed by Taiwan authorities that appeared to adversely affect the efficiency, profitability and competitiveness of the intermodal operations of U.S. carriers serving the U.S./Taiwan trade. The restrictions concerned the ability to own and control dockside equipment, to obtain container terminal licenses, and to conduct certain trucking and shipping agency activities. As a result of the two formal Commission proceedings, both of which have been concluded, most of these restrictions have been removed.

The 1989 proceeding succeeded in getting U.S. carriers the right to own and control dockside equipment and obtain on-dock container terminal licenses. In addition, there was some liberalization of the square footage requirements necessary to operate off-dock container terminals, and conduct shipping agency operations.

The 1991 investigation was initiated due to remaining regulations or legal prohibitions imposed by Taiwan authorities that precluded U.S.-flag carriers from efficiently operating their off-dock container terminals, performing trucking services, registering chassis, leasing containers, and establishing shipping agency operations in Taiwan, despite assurances that restrictive Taiwan laws and regulations would be changed. Most of these matters were resolved to the satisfaction of the U.S. flag carriers. The remaining major legal impediment is the Taiwan prohibition on U.S. carriers operating their own trucking business. At the time of discontinuance of the proceeding in May 1992, the Taiwan legislature had introduced legislation to address the trucking issue. U.S. and Taiwan carriers submitted reports to the Commission on the progress and developments in resolving the trucking issue in November 1992. The reports indicated that legislation to remedy trucking restrictions had not been enacted and no definitive schedule for passage of such legislation was announced. The Commission directed U.S. and Taiwan carriers to report further on February 8, 1993. Those reports were reviewed and the Commission has determined to impose a further informational reporting requirement to focus on trucking matters and soon will issue an order to that effect under the FSPA.

#### **Korea**

In June 1991, the Commission issued a proposed rule pursuant to section 19(1)(b) of the Merchant Marine Act of 1920, in response to apparent unfavorable conditions in the foreign oceanborne trade between the U.S. and Korea. The proposed rule referred to Korean laws and regulations which precluded U.S. carriers operating in the U.S.-Korea trade from engaging in trucking activities and directly contracting for rail services in Korea. The rule proposed the imposition of fees on Korean-flag vessels calling at U.S. ports.

In October 1991, after agreements had been reached and partially implemented in negotiations between the United States and Korea, and on recommendations of the affected U.S.-flag carriers, the Commission held further action in this proceeding in abeyance. Korea agreed to permit U.S. carriers to operate their own trucking services in the city of Pusan from August 1, 1991, and to extend trucking services to Kyong Sang Nam Do province by

December 31, 1992, and to Kyong Sang Buk Do province by June 30, 1993. U.S. carriers are now able to directly contract for rail services with the Korean National Railroads Administration for cargo space on trains in the Pusan to Seoul corridor.

The Commission solicited additional information on these issues in order to ensure implementation of the commitments made and to monitor progress resulting from U.S.-Korea discussions held in July and August 1992. The two delegations agreed that Korea would take all necessary steps to open fully its trucking market to U.S. carriers by March 31, 1994.

The Commission on November 13, 1992, issued a Final Rule that found that Korean restrictions preclude U.S. carriers from engaging in trucking activity in Korea. In light of the new Korea commitments, however, and consistent with the recommendations of the U.S. carriers involved, the \$100,000 per voyage sanctions were suspended until June 1, 1994, during which time the Commission will review the need for such sanctions. The Commission also prescribed a schedule for periodic reporting by the affected carriers.

In a related matter, the Commission, responding to a petition filed by Direct Container Line, Inc., a non-vessel-operating common carrier, issued a Final Rule on November 13, 1992. The petition alleged that Direct Container Line had been unable to establish a branch office in Korea as a result of the Korean Maritime Transportation Business Act that prohibits non-Korean citizens from owning a majority interest in such maritime related enterprises.

In bilateral talks between the Governments of the United States and Korea held in July and August 1992, Korea agreed to take all necessary steps to eliminate nationality-based restrictions so as to allow U.S. forwarding and consolidating companies to conduct business activities in Korea by June 30, 1993. In recognition of these commitments, and at the suggestion of the petitioner, the Commission delayed the effectiveness of the sanctions established in the Final Rule until September 1, 1993, and provided for further comments to be filed by July 31, 1993.

The Commission also received a petition from the Korean Forwarders and Customs Brokers Association of Southern California seeking relief for the efforts of Korea to establish a transportation operation in the United States. Due to the fact that the consortium was an operation more on the drawing board than in reality and that bilateral discussions of shipping issues were to be held between the Governments of the United States and Korea, the Commission decided to hold further action on the petition in abeyance.

#### People's Republic of China ("PRC")

In July 1991, the Commission initiated an investigation under the FSPA, to determine the effect of PRC laws and practices that bar U.S. carriers from engaging in full branch office activities in the PRC; assessing rates in the PRC consistent with their FMC-filed tariffs due to PRC rate interference; conducting various port, trucking and other intermodal activities; and that impose discriminatory and exorbitant charges assessed on U.S. carriers by the PRC.

Commercial and governmental discussions took place in October 1991. The Commission was furnished copies of the commercial Agreed Minutes and the U.S.-PRC Memorandum of Consultation ("MOC"). The MOC notes a significant number of new PRC commitments, which, if effected, could substantially alleviate the burdens alleged by the U.S. carriers. The PRC further indicated that U.S. carriers would be allowed to engage in direct business activities in the PRC after establishing joint ventures or wholly-owned subsidiaries, and that port and handling fees would be equalized for foreign carriers and PRC carriers engaged in international trade. Also, U.S. cargo levels would not suffer should the U.S. carriers institute feeder service at Chinese ports, and U.S. carriers would be able to negotiate feeder service rates directly with PRC carriers. Furthermore, the PRC indicated that intermodal activities could be conducted through joint ventures with Chinese entities. The Agreed Minutes reflect some of the same developments. They also reported that the PRC companies that serve as U.S. carrier agents agreed to adhere to U.S. carrier tariffs.

In February 1992, the Commission, on the basis of the recommendations and representations of the U.S. carriers and the major progress made in eliminating these trade barriers, determined to terminate this investigation without imposing sanctions. However, the Commission continued to impose reporting requirements on the carriers in the trade so that we may monitor the progress on the implementation of the commitments made. The Commission directed U.S. and PRC carriers to report on conditions in the trade in September 1992 and March 1993. The U.S. carriers, in their September reports, appeared



to have obtained some relief from PRC restrictions, but two concerns remain: PRC recognition of carrier tariffs, and authority to undertake trucking operations within the PRC.

In February 1993, the Commission issued a supplemental order pursuant to section 10002(d) of the Foreign Shipping Practices Act, section 19(b) of the Merchant Marine Act, 1920, and section 15 of the Shipping Act of 1984, directing U.S. and Chinese carriers to furnish information about the trade, with emphasis placed on those two remaining concerns. This supplemental order was issued to address Commission concerns about receiving information from all U.S. and PRC carriers. The reports were submitted in March 1993, and are currently being reviewed and analyzed. Additional reports will be submitted this month.

The Commission also ordered the carrier members of the Asia North America Eastbound Rate Agreement ("ANERA") to provide information on the impact of control over the pricing decisions of ANERA by Sinotrans, a PRC-vessel operating common carrier. This will supplement the information provided by U.S. carriers on the tariff observance issue. That information also is being analyzed.

#### Ecuador

The Commission initiated a proceeding in 1989, under section 19(1)(b) of the 1920 Act, based upon allegations by a U.S. company, Overseas Enterprises, Inc. ("OEI"), that it had been unable to reestablish a liquid bulk service in the U.S. trade with Ecuador as a result of Ecuadorian cargo reservation policies and resolutions. The Commission issued a Final Rule in January 1990 in which it: found the existence of conditions unfavorable to shipping in the trade resulting from Ecuadorian cargo reservation laws and regulations; assessed a fee of \$50,000 per outbound voyage from the U.S. against the Ecuadorian-flag carrier Transligna Maritima, S.A.; required periodic reporting of its activities by Transligna; and indicated that it would request Customs and the U.S. Coast Guard to exclude Transligna's vessels if it failed to comply with the Commission's Rule.

Transligna informed the Commission that it had sold the sole parcel tanker vessel it operated under the Ecuadorian flag and was no longer eligible to benefit from Ecuadorian cargo reservation policies. Transligna paid no fees and filed none of the required reports pursuant to the Commission's Rule.

In December 1990, OEI filed a Request for Enforcement of the Commission's Rule alleging that Transligna continued to operate in the trade under another corporate identity and continued to dominate carriage of liquid bulk cargo at the same time that OEI continued to have difficulty obtaining waivers to carry such cargo. The Commission subsequently initiated a fact finding investigation into relationships between Transligna and related companies and the operation of the waiver system in Ecuador. Based upon the report of the fact finding officer, the Commission directed Andino Chemical Tankers and its general agent, Chemical Tankers of America, a related company, to show cause why Andino should not be deemed to be the successor or substitute for Transligna and be subject to the sanctions previously ordered against Transligna.

Andino and Chemical Tankers of America and the FMC entered into a settlement agreement whereby these companies as successors to Transligna were subject to the sanctions imposed on Transligna in the Final Rule. In approving the settlement, the Commission noted that the cargo reservation system had been abolished by the Government of Ecuador.

#### Italy

A petition for section 19 action was filed by the Shipbuilders Council of America in October 1992, alleging that subsidies offered by the Government of Italy for the construction of passenger vessels by the state-owned shipbuilding conglomerate, Fincantieri, result in conditions unfavorable to shipping in the U.S. trades. Comments from interested parties have been filed. The Commission will be meeting to consider a ruling on the Petition within the month.

#### Kuwait

The Commission is also aware of concerns that the Government of Kuwait's alleged policy of favoring the United Arab Shipping Company may be contributing to a possible failure to adhere to a commitment to use U.S.-flag vessels in its post-liberation reconstruction effort. We have been in contact with the U.S. Department of State and interested commercial entities in order to remain apprised of efforts to resolve that issue diplomatically, and to determine whether and when Section 19 action would be appropriate.

#### Commission of the European Communities ("EC")

One of the most significant developments for the shipping industry in Europe and one that will also have an impact on U.S.-flag carriers and U.S. exporters and importers to

and from Europe is the implementation of EC shipping policy regulations. These regulations represent a coordinated approach by the EC to regulate liner shipping.

The implementation of these regulations in U.S. trades is of particular interest to the Commission because situations could arise where, on the one hand, actions or rulings of the FMC and the EC may give rise to conflicts of law, or, on the other, may provide opportunities to effectively coordinate action. The Commission is, therefore, closely monitoring the application of these regulations and has initiated an information exchange program with the EC so that each side may gain a better understanding of the operations of the other.

The EC shipping regulations deal with: (1) the freedom to provide services whereby the elimination of unilateral restrictions or bilateral cargo reservation agreements in trades between EC member states and between EC member states and third countries is called for by 1993; (2) rules on competition that apply the EC's competition or antimonopoly rules to maritime transport; (3) unfair pricing practices of carriers operating in EC trades; and (4) coordinated action to safeguard free access in ocean trades between the EC and third countries.

The FMC has closely monitored the application of the EC rules on competition to the Trans-Atlantic Agreement ("TAA"). The FMC has allowed TAA to go into effect, but the EC has yet to decide whether TAA qualifies for an exemption from EC antitrust statutes. On a related matter, the EC has taken legal action against conference multimodal pricing activities in the Far East/Europe trade. The FMC is in contact with EC personnel regarding developments in this issue because its decision could serve as a precedent, and therefore affect conferences operating in the U.S.-Europe trade. However, were the EC to require TAA to remove its European intermodal ratemaking authority, this would not conflict with the Shipping Act of 1984, but would require TAA to file a conforming amendment with the FMC.

Other issues under consideration by the EC that are of particular interest to the FMC deal with the proposed definition and treatment of shipping consortia, and restrictive cargo reservation policies of certain African nations.

#### **DOMESTIC OFFSHORE TRADES**

Both the FMC and the Interstate Commerce Commission ("ICC") have regulatory responsibilities over aspects of the domestic offshore trades. The FMC and ICC have issued a Joint Policy Statement to clarify procedural and jurisdictional issues in an attempt to discourage "forum shopping" by the carriers operating in these trades. We are unaware of any significant realignment of tariffs as a result of the guidance contained in the Joint Policy Statement. It is possible that this jurisdictional situation can be alleviated only by corrective legislation.

#### **CONCLUSION**

The budget request we are submitting today will allow the Commission to do its job, although in a very austere environment. In order to live within recent budgets, the Commission has reduced its workforce over the last two years, through attrition, to a level well below our FTE level. Agency reorganization, hiring freezes, attrition, and cost-conscious management have taken any "fat" out of our budget. Further substantial cuts could result in our inability to provide credible enforcement and full implementation of our many statutory responsibilities.

We respectfully request favorable consideration of our budget and ask for your continued support so that we may meet the important challenges ahead.



U.S. Department  
of Transportation  
**Maritime  
Administration**

Deputy Administrator

400 Seventh St., S.W.  
Washington, D.C. 20590

20 MAY 1993

The Honorable William O. Lipinski  
Chairman, Subcommittee on Merchant Marine  
Committee on Merchant Marine and Fisheries  
United States House of Representatives  
Washington, D.C. 20515-6230

Dear Mr. Chairman:

I am enclosing the Maritime Administration's response to the additional questions which you submitted to us with your letter dated April 23, 1993, regarding testimony on the Fiscal Year 1994 Authorization for the Maritime Administration before the Subcommittee on Merchant Marine held on April 21, 1993.

If I may be any further assistance, please do not hesitate to contact me.

Sincerely,

Richard E. Bowman  
Acting Deputy Maritime Administrator

QUESTION 1: What was your budget request to the Office of Management and Budget (OMB), and how much did OMB finally approve for the Maritime Administration (MARAD)? Please explain the difference.

ANSWER: MARAD's 1994 request to OMB and the amounts allowed are shown in the following table (in thousands of dollars):

	Request to OMB	Allowed	Change
OPERATING-DIFFERENTIAL SUBSIDY (appropriation to liquidate contract authority)	243,857	240,870	-2,987
OPERATIONS AND TRAINING	86,658	80,081	-6,577
READY RESERVE FORCE	575,708	300,000	-275,708
FEDERAL SHIP FINANCING FUND	<u>32,789</u>	<u>0</u>	<u>-32,798</u>
TOTAL APPN REQUESTED	939,012	620,951	-318,061

Explanation of changes:

- o ODS - a small decrease (\$2.987M) in subsidy based on most recent rate estimates.
- o O&T - major program cuts are as follows:
  - USMAA - Waterfront Project (\$1.75M); other maintenance and repairs (\$0.747M); academic program increases (\$1.856M)
  - Oil Pollution Trust Fund for Interagency Oil Pollution Research (\$0.5M)
  - Shipbuilding and Shipyard Development - new R&D initiative to improve the competitiveness of private U.S. shipbuilding industry (\$5M)
  - ADP equipment and services (\$1.172M)

- major base decreases include pay raise for 1994 (\$1.114M), 2.5% FTEs (\$0.6M), and 3% of administrative expenses (\$0.464M)
- o RRF - major areas:
  - Fleet Additions was cut by \$62M. The allowance provided \$160M of the \$222M requested enabling MARAD to purchase four RO/ROs and make satisfactory progress towards meeting the MRS requirement of 36 RO/ROs in the RRF by 1996 and a total of 140 vessels by 1999.
  - Maintenance & Operations was cut by \$206.8M. The allowance provided \$136M of the \$342.8M requested and will preclude MARAD from meeting the readiness enhancements outlined by the DOD Mobility Requirements Study. Specifically, it will result in fewer ships being able to be maintained in their recently MRS-endorsed readiness status. Decisions as to the number of ships assigned to each readiness status will be made in consultation with DOD.
  - National Defense Reserve Fleet - Requested transfer to the RRF appropriation was not approved. The NDRF funding requirement (\$6.937M) is included in Operations and Training request.
- o FSFF - no monies are allocated for the Title XI program.

QUESTION 2: Because MARAD carried over Fiscal Year (FY) 1992, Operating-Differential Subsidy (ODS) funds to maintain 1993 contracts, the FY 1994 budget request actually constitutes a decrease in funding for the ODS program. Why is the administration requesting lower funding for FY 1994 ODS contracts?

ANSWER: The budget request is divided into two sections: (1) liner operations and (2) bulk operations. The FY 1994 request for liner operations reflects a slight increase in funding over 1993's request, based on the same amount of vessels under subsidy and anticipated ship-years of subsidized activity. The FY 1994 request for bulk operations is less than in 1993, based on fewer subsidized ships at the end of the fiscal year and fewer ship years of activity. The bulk reduction is centered on two operators, American Maritime Transport, Inc. and Margate Shipping Co., that have vessels whose subsidized lives expire during FY 1994.

QUESTION 3: With the pending threat of the loss of our U.S.-flag commercial maritime fleet and the lack of additional funding for ODS in the administration's budget, what are the Secretary's plans for addressing the expiration of the ODS contracts over the next five years?

ANSWER: The Secretary proposed a number of initiatives for maritime reform. Unfortunately, there were no funds available in Fiscal year 1994 to provide for such a program. In addition, Department of Defense (DOD) had not completed its Requirement Study which is now anticipated to be ready in August, 1993. Also, the NEC's Shipbuilding Studies are not expected to be complete until sometime in the last quarter of 1993.

QUESTION 4: To deal with the Ready Reserve Force (RRF) maintenance and operations funding shortfalls in 1994, how much will be carried over from FY 1993, and how will these transfers effect 1993 Fleet maintenance and operations?

ANSWER: We are making adjustments to our FY 1993 Maintenance and Operations plans based upon the reduced request for FY 1994 to assure that between \$10 and \$15 million is carried into FY 1994. These adjustments consist of postponing a few test activations and deferring some paint/hull preservation work and are not considered significant relative to the overall 1993 maintenance program. Based upon discussions with DOD, MARAD would need this amount to provide a minimum level of RRF readiness for priority ships such as RO/RO's.

FY 1994 funds are not sufficient to meet MRS standards for the entire fleet as the 1994 Maintenance and Operations appropriation of \$140 million represents a 41% reduction from the 1993 appropriations level.



QUESTION 5: How will the proposed reduction in funds for the RRF effect its surge capability?

ANSWER: The FY 1994 request level for maintenance and operations will enable selective readiness enhancements for only the highest priority RRF ships.

The DOD Mobility Requirements Study (MRS) recommended fleetwide readiness enhancements such as ROS-4 status for all RO/ROs, outporting, and 2-person crew for 5-day ships, and an aggressive test activation program for all RRF ships.

The budgetary constraints necessary to reduce overall Federal spending will cause us to defer full implementation of all MRS recommendations applicable to the RRF. Readiness of RO/ROs will be enhanced either by virtue of ROS-4 status (with live aboard crews) or improved RRF 5-day status (2-person crews and more frequent test activations). Some of the existing non-RO/RO 5-day ships will also come under the improved 5-day procedures. These enhancements can only be accomplished through downgrading the readiness of other RRF ships.

There will be a new RRF 30-day status to which approximately 10 of the breakbulk ships will be downgraded in order to fund enhanced readiness for RO/ROs and other higher priority surge assets in the RRF.

QUESTION 6: How will the projected reduction in the number of Reduced Operating Status (ROS) vessels impact licensed and unlicensed American seaman and U.S. shipyard workers?

ANSWER: At full FY 1994 RRF funding in adherence to the Mobility Requirements Study (MRS) levels, MARAD would have had 29 RO/ROs in ROS, employing 145 licensed officers and 145 unlicensed seamen. The reduced funding in the FY 1994 RRF passback will likely reduce ROS to 10 ships, each having a 9 man crew. This results in an employment level of 50 officers and 40 seamen.

Figuring that each "transition" of a RRF RO/RO from ROS to full operations requires 100 man days of shipyard industrial support, the fully funded MRS program would generate 2900 man days. The reduced ROS program involving 10 RO/ROs would cut the shipyard labor requirement to 1000 man days.

QUESTION 7: How much additional funding over the FY 1994's budget request would be required to keep 25 RRF vessels in ROS.

ANSWER: The 1994 plan has a limit of 10 ships in ROS. To add an additional 15 ships (assuming the ships were already at an outport site) would require additional incremental costs of \$15.0 million. These additional funds would pay for the cost of the crew and added services to the ship.

QUESTION 8: How will the proposed 1994 funding level for the RRF impair implementation of the Mobility Requirement Study (MRS) recommendations?

ANSWER: MARAD is working closely with USTRANSCOM and other DOD sealift experts so that a \$140 million maintenance and operations plan can be developed for FY 1994 which meets DOD's priority surge requirements.

It is clear that FY 1994 funds are not sufficient to meet MRS standards for the entire fleet as the Maintenance and Operations appropriation of \$140 million represents a 41% reduction from the FY 1994 base amount. As an example, MARAD will be able to fund a maximum of 10 RO/RO's in ROS status instead of the entire 1994 inventory of 29 RO/RO's.

To allow MRS funding of priority ships, MARAD will identify approximately 10 breakbulk ships to be downgraded to RRF 30-day status. RRF 30-day status will consist of eliminating ship manager assignment, placing ships at NDRE reserve fleets, curtailing all maintenance and repair except an annual Phase IV cycle, and conducting no activation tests.

QUESTION 9: How does the Maritime Administration plan to continue conducting seatrials in FY 1994?

ANSWER: There are alternatives to the MRS recommendation. MARAD and DOD are exploring variations in the interval between seatrials and docktrials, depending upon the relative priority of the vessel. The objective is to try and optimize ship readiness at the least cost.

For FY 1994, MARAD anticipates that for RRF ships in ROS-4 status, an annual sea trial will be conducted in conjunction with a DOD exercise and for RRF 5-day ships a 24 month sea trial cycle will be followed. For RRF 10-day ships, we are considering a 36 month dock trial program for a total of 7 sea-trials and 15 dock trials. Due to funding constraints, no test activations would be scheduled for 20- or 30-day ships.

The RRF test activation/seatrial procedure is required to obtain the RRF vessel's USCG Certificate of Inspection, (COI). The COI is issued for a two year period, with a one year grace period to complete all required tests. As the vessels cannot sail without certification, an ongoing activation/seatrial program is a key program element to maintain RRF readiness.

QUESTION 10: How does MARAD plan to maintain the additional ships to be acquired in FY 1993 and FY 1994 without additional maintenance funds?

ANSWER: MARAD is presently acquiring 12 RO/ROs for the RRF using FY 1993 and prior year appropriations. These types of ships are considered high priority surge assets to DOD.

MARAD will provide adequate maintenance funds for these vessels as well as any RO/ROs acquired with FY 1994 funds because of the priority DOD gives these highly versatile ships which carry large unit equipment including tanks and tracked wheel vehicles which can be driven aboard.

With limited maintenance and operations funding, the addition of priority ships subsequently means downgrading the readiness (as a result of reduced maintenance/repair and testing) of other RRF ships--most likely breakbulks, which don't have specialized sealift enhancement features, and tankers. MARAD is working with DOD sealift planners on what aspects of fleet readiness will be reduced to accommodate required maintenance funding for newly acquired ships.

QUESTION 11: What problems has MARAD experienced in securing Department of Defense approval for Title XI loan guarantees for the construction of new vessels in U.S. shipyards?

ANSWER: MARAD sent DOD two loan applications for a molten sulphur carrier and two power-mounted barges that meet all the requirements for Title XI approval. DOD rejected them, and MARAD has asked DOD to reconsider its position. DOD has not yet responded to this request. Therefore, MARAD has been unable to give final approval to any new Title XI applications this fiscal year.

QUESTION 12: How does the decision to eliminate Title XI funding complement Secretary Peña's proposed maritime reinvestment program?

ANSWER: The FY 1994 budget did not originally provide any funds for the Title XI program. Funding for Title XI for FY 1994 is now being considered as part of H.R. 1964, the Maritime Administration Authorization Act for Fiscal Year 1994, introduced by Chairman Lipinski on May 4, 1993. The Title XI program has in the past, and can in the future, contribute to the U.S. shipbuilding base and the creation of jobs in the United States, both of which are important issues of the maritime reinvestment program.



QUESTION 13: What steps would be necessary to allow for the transfer of FY 1993 Title XI funds for use in 1994 and could problems with the "militarily useful" requirements also be addressed?

ANSWER: The current Title XI appropriation is an annual appropriation which expires at the end of FY 1993. In order for the funds to remain available through FY 1994, Congress would have to pass legislation reappropriating the money for another year (or longer). New budget authority resulting from this action would have to be recorded in FY 1994.

Problems resulting from the militarily useful requirement could be addressed in the same legislation since the cap on discretionary spending applies to the entire category in FY 1994 instead of applying to the defense, domestic and international subcategories. DOD approval of the use these funds would then no longer be required.

QUESTION 14: How is MARAD planning on using the funds from the revenue from NDRF sales made available through the 1993 appropriations? What level of funding is assumed in 1993 and 1994?

ANSWER: Under present law, revenue from the scrapping of obsolete vessels in the National Defense Reserve Fleet (NDRF) may be used for national defense (e.g., acquiring ships suitable for upgrade to RRF status) and assistance to the seven maritime academies (e.g., fuel oil for training ships, simulators, and facilities.). In FY 93, as in FY 92, we intend to use these monies for both purposes.

Revenues from NDRF sales are estimated to be \$9.6 million in FY 93 and \$8.4 million in FY 94.

Thus far in FY 1993, seven NDRF vessels have been sold generating \$2.6 million in revenue.

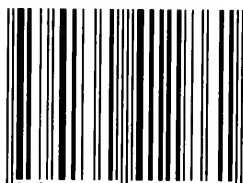
QUESTION 15: Is it the consensus of the Administration working group on maritime revitalization that ships built in subsidized foreign yards should not be eligible for U.S. Government subsidies?

ANSWER: The Secretary proposed a number of initiatives for maritime reform. Unfortunately, there were no funds available in Fiscal year 1994 to provide for such a program. In addition, DOD had not completed its Requirement Study which is now anticipated to be ready in August, 1993. Also, the NEC's shipbuilding studies are not expected to be complete until sometime in the last quarter of 1993. Furthermore, this was not a question that was addressed in the context of the reform deliberations.



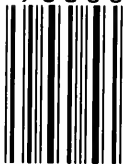
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